





# Spaniard Wins at UNESCO, Ending the Reign of M'Bow

By Barry James  
*International Herald Tribune*

PARIS — After an acrimonious all-night convulse, Federico Mayor Zaragoza, a Spanish biochemist, was nominated Sunday as director-general of the United Nations Educational, Scientific and Cultural Organization, ending the 13-year reign of Amadou Mahtar M'Bow.

Mr. M'Bow, a 66-year-old Senegalese, said Western countries had blackmailed him into abandoning his quest for a third term.

The United States, which withdrew from UNESCO in 1984 in protest over what it said was Mr. M'Bow's mismanagement and the organization's anti-Western bias, said Sunday that it had no immediate plans to rejoin.

"We have no reason to reconsider," said the State Department spokesman, Charles E. Redman.

Britain, which withdrew with Singapore at the end of 1985, made

no official comment, but it has also indicated that it will not consider rejoining the organization until it has been fundamentally changed.

But Mr. Mayor's nomination forestalled the withdrawal of several other Western nations that had threatened to leave in the event of Mr. M'Bow's re-election.

Mr. Mayor, 53, received 30 votes from UNESCO's 50-member executive board, including the four controlled by the Soviet Union, formerly one of Mr. M'Bow's staunchest supporters.

Mr. M'Bow left the five-round election with as much support as he entered it nearly two weeks ago. His African, Arab and other Third World backers voted against Mr. Mayor. "They are very bitter and extremely offended by threats by Western members to pull out," said a European member of the executive board.

The executive board's nomination now has to be approved by

UNESCO's general conference on Nov. 7, and diplomats said there remained a possibility that Mr. Mayor could be dropped in favor of a candidate better placed to heal the North-South breach in the organization.

Mr. M'Bow, who was officially backed by the Organization for African Unity, told the board by letter that he no longer wanted to be a candidate. He said nations opposing him "had not hesitated to resort to blackmail and disinformation as well as pressures and threats of all sorts."

He said those nations "have perverted and corrupted the democratic process of the election" by threatening to withdraw or not make their financial contributions if he were nominated.

Mr. M'Bow led the first four rounds of voting, but could not obtain the necessary majority of 26. The fifth vote was a runoff between the two leading candidates.

The crucial element in Mr. Mayor's victory was the Soviet Union's decision to support the Spaniard. In the first four rounds, Moscow voted for Nikolai Todorov, a Bulgarian historian.

The Russians appear to have abandoned Mr. M'Bow in an effort to save UNESCO. The withdrawal of the United States and Britain cost the organization one-third of its budget, which is down to \$145 million annually, and the departure of other countries would have been deeply damaging to its finances and its universality.

The Soviet decision came amid a general recasting of Moscow's UN policies. Last week, the Russians announced they would pay overdue UN bills, including \$197 million for peacekeeping operations they have long opposed.

Mikhail S. Gorbachev, the Soviet leader, has spoken of invigorating the UN Security Council and World Court, of using peacekeeping forces in regional conflicts and of setting up a UN tribunal on terrorism.

Because of congressional opposition, the United States owes \$414 million in UN dues, including \$61 million for peacekeeping units.

Last week, Laura Gersono, the State Department official in charge of relations with international organizations, said it was impossible to say whether there would be any money for the United States to rejoin UNESCO at some time in the future. She said Washington would consider rejoining only when it saw evidence of fundamental change, including a measure to give major donors greater weight in how the budget is spent and the depoliticization of UNESCO programs.

In leaving UNESCO, the United States and Britain complained about what they said was automatic Communist and Third World bias against the West. "We never said that M'Bow specifically was the problem," said Mr. Redman, the State Department spokesman.

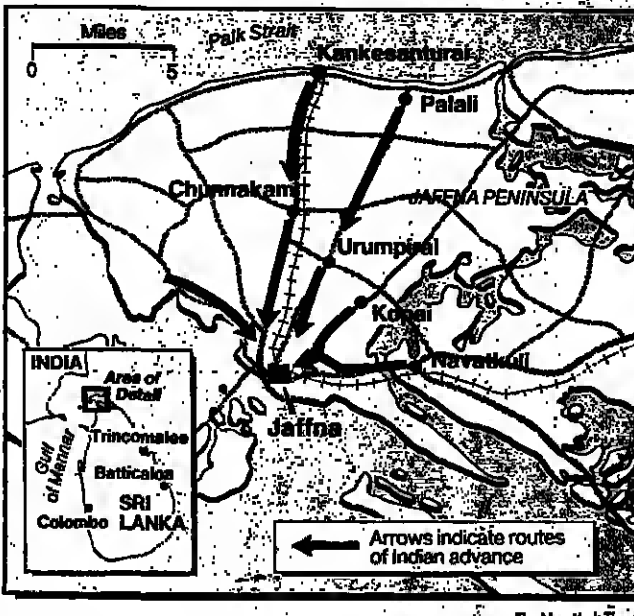
Nevertheless, Mr. M'Bow, the first African to head a major UN organization, attracted criticism over accusations of mismanagement, wastefulness, nepotism and favoritism.

For some delegates who supported Mr. Mayor, his strongest attribute was that he was not Mr. M'Bow. He was earlier a deputy director-general of UNESCO and personal adviser to Mr. M'Bow as well as education minister of Spain for a brief period.

Mr. Mayor said he did not represent any political grouping. "I am an independent and a professional," he said. In a bid to reassure the countries that supported Mr. M'Bow, he said, "My first concern is with development, particularly in Africa."



A Sri Lankan mother and her child who fled fighting near Jaffna, seeking refuge at a Buddhist temple in Colombo.



## Afghan Leader Tightens Grip By Ousting Karmal Backers

ISLAMABAD, Pakistan — The Afghan leader, Major General Najib, has tightened his grip on the ruling People's Democratic Party by purging supporters of his predecessor, Babrak Karmal, who was removed last year.

The Kabul radio said 15 leading associates of Mr. Karmal, including a half-brother, Mohammed Baryalai, lost their posts in the party Central Committee on Saturday.

Western diplomats in Islamabad said the purge seemed intended to allow a further relaxation of communist-style policies pursued under Mr. Karmal and to make the party more broadly acceptable.

The announcement Saturday was in line with General Najib's drive to end the nine-year-old guerrilla war by wooing rebels into a

broad-based coalition and persuading some five million refugees to return home, the diplomats said.

Western-backed Moslem rebels have dismissed the campaign as propaganda, demanding instead the withdrawal of Soviet forces, estimated by the West at 115,000.

In another development, an Afghan peace settlement, being discussed in Islamabad as Azam Hammer, the American businessman, arrived Saturday for talks with President Mohammed Zia ul-Haq.

The Central Intelligence Agency is believed to be shifting spies from Texas to Afghan guerrillas because of a shortage of pack mules after an epidemic earlier this year. The Observer newspaper reported Sunday in London.

## India Sends More Troops To Northern Sri Lanka

By Barbara Crossette  
*New York Times Service*

COLOMBO, Sri Lanka — India said Sunday that it was reinforcing its forces fighting Tamil guerrillas in the Jaffna Peninsula by 2,000 troops.

The reinforcements would raise to 8,000 the official number of Indians battling 2,000 Tamil separatists who have been holding off the Indian Army in house-to-house fighting for more than a week.

Indian troops have captured the headquarters of Sri Lanka's main Tamil rebel faction outside the city of Jaffna, the state-owned All India Radio said Sunday as reported by Reuters in New Delhi.

[The report said a large quantity of arms and ammunition had been seized at the headquarters of the Liberation Tigers of Tamil Eelam, which is at Koppai on the outskirts of Jaffna. It gave no further details.]

Officially, India says it has 14,000 troops in Sri Lanka's north and east, but unofficial estimates in Colombo and New Delhi put the figure at 20,000. While the Indian units are dispersed with large contingents in the eastern ports of Trincomalee and Batticaloa, the majority of the guerrilla forces are thought to be in Jaffna.

A spokeswoman for the Indian High Commission in Colombo said that the reinforcements were arriving as Indian troops face intense combat around the city of Jaffna, controlled by the guerrillas. The Indians have been fighting their way into the city for nine days.

More than 100 Indians and at least 525 guerrillas are reported by the Indians to have died, with hundreds wounded on both sides.

The Indians, who are in Sri Lanka to disarm the guerrillas under terms of an agreement signed by India and Sri Lanka in July, are being attacked from behind, their advancing lines, the spokeswoman said Sunday.

The guerrillas are also increasingly using civilians as shields, the spokeswoman said. She said that columns of civilians, including women and children, were blocking the movement of armed personnel carriers.

"The simplest thing would be to freeze the whole place to the ground," the spokeswoman said. "But we said that Indian forces had decided not to use heavy artillery and air power, and so the Indians were fighting with one hand tied behind their back."

Asked how much of the Jaffna Peninsula was firmly in Indian control, the spokeswoman replied, "In a general situation it is very difficult to say what has happened."

Refugees are reported to have been streaming out of the peninsula to the northern Sri Lankan towns of Mannar, Kilinochchi and Mullativu. They continue to bring accounts of high civilian casualties.

A woman who recently reached Colombo said she had heard that more than 500 noncombatants were dead. Refugees say houses are being destroyed by tanks.

The Indians will not estimate the civilian casualty toll, and independent investigations are not possible. Reporters have been barred from traveling to Jaffna.

A team of 32 Indian Red Cross officials are in Jaffna to study how to distribute food to the remaining population, the Indian spokeswoman said. She also said that ships with food and other supplies would be arriving from the Indian city of Madras on Monday.

## WORLD BRIEFS

### Armenian Protest Is Reported Foiled

MOSCOW (AP) — The police in the Armenian capital of Yerevan broke up a protest by at least 1,000 people on Sunday, the second day of public demonstrations in the small Soviet republic bordering Turkey. Moscow dissident sources reported.

Sunday's demonstration was in support of Armenian national rights in the village of Chardakhu in Soviet Azerbaijan, said a dissident, Valery Senderov, who learned of the protest from sources in Yerevan.

On Saturday, at least 3,000 people marched in Yerevan to demand the closing of a polluting chemical plant and a nuclear power station, according to other sources in Moscow.

### Manila Reports Foiling a Coup Plot

MANILA (AP) — Officials said they foiled a coup plot on Sunday after mutineers stole an armored personnel carrier from army headquarters but abandoned it near President Corason C. Aquino's residence.

Pro-government troops and tanks were deployed around the presidential palace, but there were no reports of other incidents. It appeared the theft of the personnel carrier might have been a ploy by the rebels to test security and embarrass loyal military commanders.

More than 20 foreign and Philippine reporters had assembled at the campus of Santo Tomas University after receiving a tip that they might be taken to a press conference by mutinous officers. Instead, they watched as the personnel carrier drove around the campus before the six-man crew abandoned it. Inside the vehicle, loyal troops found a banner of the mutineer "Guardians" faction.

### U.K. Weather Office Orders Probe

LONDON (Reuters) — The Meteorological Office has ordered an inquiry into whether it should have given an earlier warning of Britain's worst storm in 300 years, which killed at least 13 persons.

The Meteorological Office warned of how intense the storm would be just a few hours before hurricane-force winds began whipping across southern England early Friday, causing millions of dollars worth of damage. The storm also caused at least six deaths and widespread damage in northern France, Spain and Portugal.

"We will go back to the data available at the time to see whether we could have predicted it," a spokesman for the Meteorological Office said. "Preliminary results indicate that it happened so quickly that we did the best we could in the circumstances." He declined to comment on reports in British newspapers that forecasters in France and the Netherlands were able to issue earlier storm warnings based largely on the same information available to British meteorologists.

### Ozal Wins Fight for Early Election

ANKARA (Reuters) — Prime Minister Turgut Ozal has won a crucial parliamentary struggle for an early general election, but the vote failed to end Turkey's worst political crisis since 1980.

"We have just saved the country from the brink of turmoil," Mr. Ozal told his conservative Motherland Party when the law for a Nov. 28 poll was passed Saturday after a mass opposition walkout. Only 20 of the 333 opposition members of the 400-seat parliament were present for the show of hands after a bitter debate that undid the deep political divisions that have haunted Turkish politics for nearly three decades.

The new election law must be ratified by President Kenan Evren, who as the army chief led Turkey's third military coup in 20 years and set political chaos in 1980. Political sources said Mr. Ozal was still widely expected to win the election. The prime minister had accused opposition parties of seeking a delay in the voting until next year because they were lagging badly in public opinion polls.

### 16 to Die for Sierra Leone Coup Plot

FREETOWN, Sierra Leone (Reuters) — Sixteen persons, including former Vice President Francis Mischek Minah, have been sentenced to death for plotting in March to overthrow the president, Major General Joseph Saidu Momoh.

Four of those sentenced Saturday were found guilty of the murder of a paramilitary forces driver killed in uprising. Those convicted have 21 days to appeal, court sources said.

### For the Record

To allay fears about the safety of Soviet reactors after the Chernobyl nuclear accident, the Soviet Union has invited an international team to inspect safety arrangements at a civilian nuclear power plant, officials at the United Nations in New York said. The invitation was made last month to the International Atomic Energy Agency in Vienna. (NYT)

The three major West German political parties called Saturday for new elections in the northern state of Schleswig-Holstein following the death of the state premier governor, Uwe Barschel. (AP)

## TRAVEL UPDATE

### China to Buy Soviet Passenger Planes

BEIJING (AP) — Chinese national airlines will add 10 Soviet Tupolev-154m passenger planes to their fleet next year, the official China Daily newspaper said Sunday.

The newspaper said the General Administration of Civil Aviation of China is to pay about 320 million yuan (\$86 million) for the planes, which hold 164 passengers. China's five airlines, which flew 10 million passengers last year, also use Boeing, McDonnell Douglas and Airbus planes.

### Correction

An article in the Saturday-Sunday editions of the International Herald Tribune incorrectly reported the position of Gisèle Halimi, the former French representative to the executive board of UNESCO. She resigned to protest her government's decision to support Foreign Minister Sahibzada Yaqub Khan of Pakistan for director-general of the organization.

## U.S. Plans to Tell China Of Displeasure on Tibet

By Elaine Sciolino  
*New York Times Service*

WASHINGTON — Some U.S. officials have concluded that they may not have reacted strongly enough in China's crackdown on recent unrest in Tibet. They say they are now trying to determine the most effective way to express the Reagan administration's growing displeasure with China over Tibet.

These officials concede that, in trying not to irritate the Chinese authorities, the United States did not stand firmly enough behind its policy of promoting human rights worldwide. China has accused the United States of interfering in its internal affairs and threatened the continued emphasis on Tibet would damage relations.

Senior State Department officials held what were described as "serious discussions" last week on the issue of rights in Tibet.

The Chinese, according to some reports, are continuing their crackdown in Tibet against Buddhist monks and Tibetans who are seeking independence for the autonomous province.

The monks have led three major demonstrations since Sept. 7, in which at least 14 persons were killed. Foreign journalists have been expelled from Tibet.

In the last few days, tourists have reported dozens of arrests in nighttime raids by policemen carrying automatic weapons as they swept through the Tibetan capital, Lhasa, in trucks in a show of force.

Officials in Washington said they were seeking a way to express displeasure that would not offend China unnecessarily and would assure it that the United States has no intention of upsetting China's security arrangements on its border.

The discussions last week, which were not conclusive, were prompted in large part by sharp criticism

from lawmakers of both parties. They argued that the United States was slow to promote the cause of Tibetan independence and that official messages deploring the recent violence were ineffective, the officials said.

"We're talking about a lot of ways we can make our views crystal clear on what we believe in and stand for," a State Department official said. "Maybe our position wasn't understood as well as it should have been."

### Deng Assails Americans

Edward A. Gargan of *The New York Times* reported from Beijing: Accusing several U.S. congressmen of "ignorance and arrogance," Deng Xiaoping, the senior Chinese leader, lashed out Friday at their sympathy for Tibetan protesters.

The comments were the first that Mr. Deng has made publicly on the protests in Tibet.

The Chinese government said that a delegation of lawmakers headed by Representative Tom Lantos, Democrat of California, the co-chairman of the Congressional Human Rights Caucus, would not be permitted to visit Tibet as the group had proposed.

The Dalai Lama and a few U.S. congressmen have created a little bit of trouble for us, but this will not affect our overall good situation," Mr. Deng was quoted as saying by the official Xinhua news agency. "On the contrary, all this has revealed their ignorance and arrogance, and exposed their true nature."

Mr. Deng's remarks were made to Franz-Josef Strauss, the Bavarian state premier.

The Dalai Lama, the highest living Buddha in the Tibetan religion, went into exile in India in 1959 after Chinese troops crushed a rebellion intended to free Tibet from China's control.

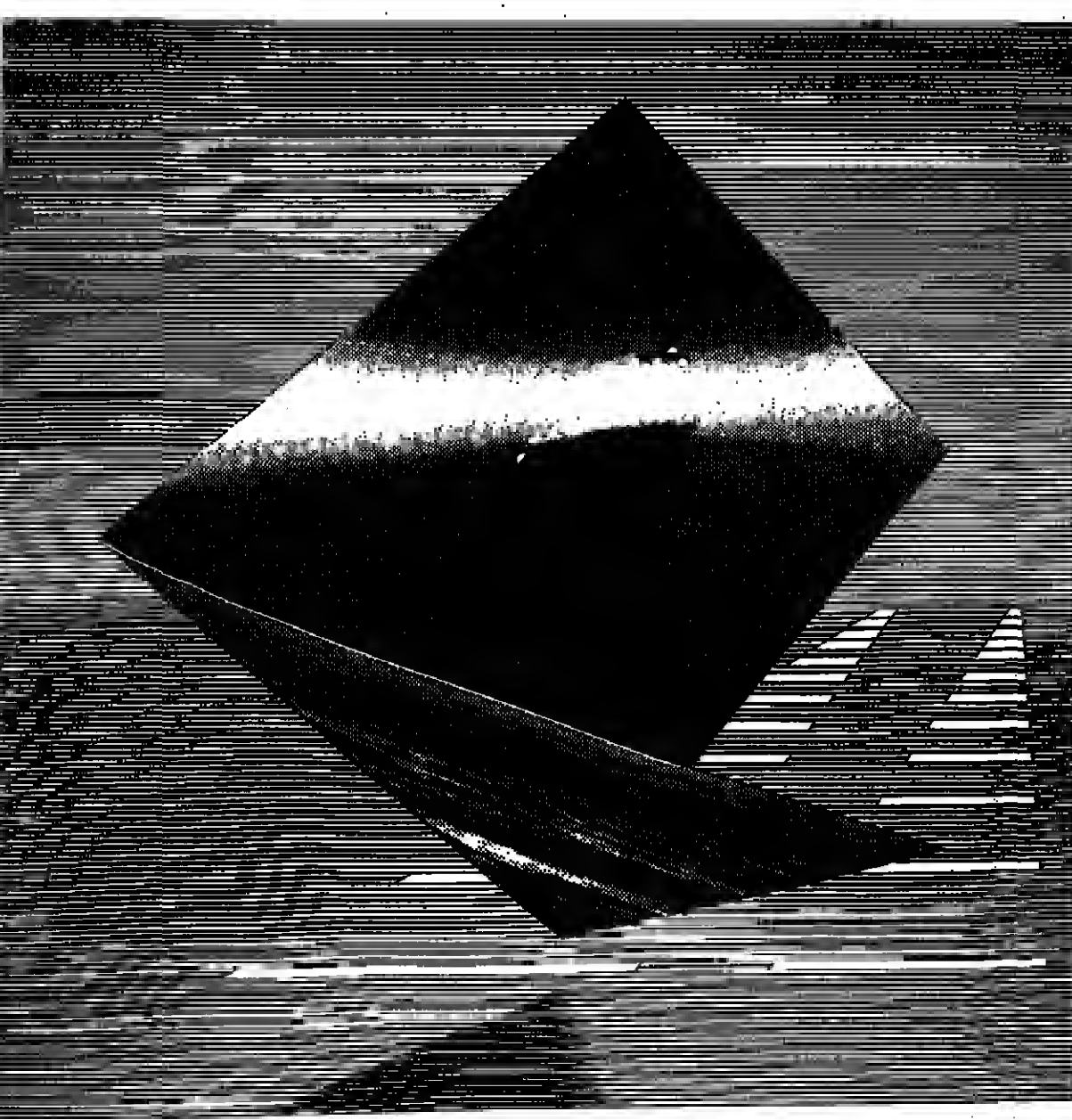
Although the Chinese leader did not name any of the U.S. congressmen, several announced Wednesday that they intended to visit Tibet to assess the human rights situation.

But a Foreign Ministry spokesman said in a statement: "Matters concerning Tibet are the internal affairs of China in which the U.S. Congress has no right to meddle."

A diplomat at the U.S. Embassy, who asked not to be identified, said a refusal by China of visas to the members of Congress would be "unprecedented."

### Emergency Rule in Turkey

ANKARA — The Turkish parliament has approved a government proposal extending emergency rule in nine districts. The areas affected include the city of Istanbul and the southeast provinces of Bingol, Diyarbakir, Elazig, Hakkari, Mardin, Siirt, Tunceli and Van, where government troops and Kurdish guerrillas seeking autonomy have been fighting since 1984.



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AMERICAN TOPICS

Flowered Borders

For U.S. Highways

Native wildflowers are to be sown along federal-aid highways throughout the United States. Texas has been doing it for 50 years, and Lady Bird Johnson, a Texan, made the practice popular during the presidency of her husband, Lyndon B. Johnson. Senator Lloyd Bentsen of Texas guided a bill through Congress requiring that 25 cents of every \$100 in federal highway funds be used to plant native wildflowers. Mr. Bentsen says that when wildflowers are growing along the roadside, "you don't have to mow once a week." He said that instead "you mow one or two times a season," and "you also find that people don't throw as much litter." All but four states — Hawaii, Montana, Nevada and Utah — have some form of native-growth program. The federal measure will require that a written plan be obtained if a state certifies that native wildflowers cannot be grown satisfactorily, that there is a scarcity of planting areas or that they are to be used for farming.

Short Takes

Documents discovered during a \$1.7 million restoration of Abraham Lincoln's home in Springfield, Illinois, apparently date from his days as a congressman in the 1840s, according to Francis Krupka, historical architect on the project. The documents, found in a kitchen wall, included part of an envelope addressed and signed by Lincoln, four letters to Lincoln and a printed anti-slavery speech. They will go on display at the residence. "It's not all that often," said Mr. Krupka, "that original Lincoln documents pop up out of the woodwork, literally."

Rubella, or German measles, reached an all-time low of 551 cases in the United States last year, down 99 percent from the advent of the rubella vaccine in 1969, according to federal figures. Health officials say eradication of the disease is possible. In children, rubella is usually mild, causing fever and rash. But when pregnant women catch the disease it can cause miscarriages and severe birth defects.

Sales clerks at the L.I. Bean retail and mail-order outdoor and sporting goods store in Freeport, Maine, take regular business trips to mountains, woods and streams. "For salespeople to talk intelligently about Bean merchandise, they should be using it and experiencing the outdoors," said Ed Babino, who runs the outings. "So we get them out there."

For five years in a row more than 90 percent of armed forces recruits have been high school graduates, the Pentagon says. The services' ability to pick a higher caliber of recruit coincides with a steady decline in unemployment, contradicting the theory that unemployment causes young people to enlist.

When Richard Lindner got married on a local television show in Fort Lauderdale, Florida, he did not think that his wife would be in the viewing audience. He has been charged with bigamy.

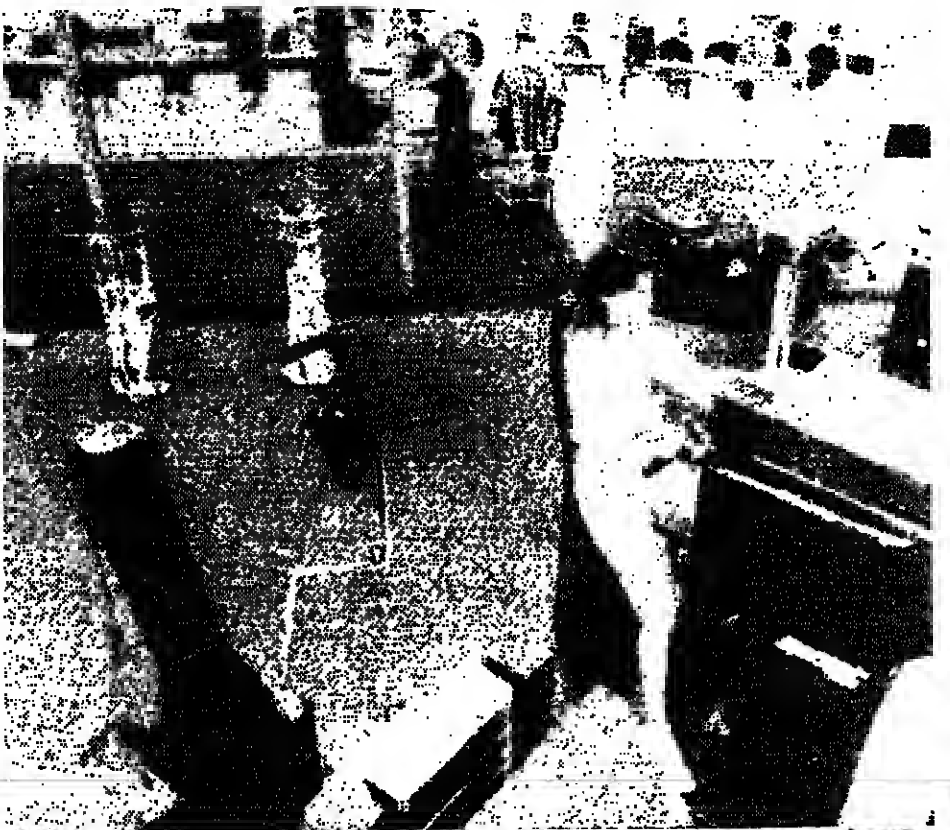
Harrington's "The Other America" made his compatriots more aware of the poor. It was a subject that Mr. Harrington, who "didn't have a nickel to my name" and was "sleeping with bedbugs," knew well. The New York Times notes that President John F. Kennedy's advocacy made the book required reading in federal offices. Historians say that more than any other work it inspired landmark anti-poverty measures, like Medicare and Medicaid. Today, Mr. Harrington, 59, still active in the cause of poor people, is a prosperous lecturer and writer. "I really love clean sheets, good food and good wine," said Mr. Harrington. "Anyone who doesn't is a nut."

Representative James H. Scheuer, Democrat of New York, said as the House Subcommittee on Aviation opened hearings on laws to prohibit smoking on all airline flights: "The proper question to his neighbor when a person lights up on an aircraft is not, 'Do you mind if I smoke?' but 'Do you mind if we smoke?'"

Senator Daniel Patrick Moynihan says he is tired of heavily

armed motorcades of limousines and police outriders speeding and screaming through Washington and he is sure other people are too. So the New York Democrat introduced a resolution in the Senate urging the State Department to restrict foreign dignitaries visiting Capitol Hill to two-car entourages. The Senate approved the measure by voice vote but the State Department is trying to block it in the House of Representatives. Mr. Moynihan said Congress is "the representative body of a democratic state and not some besieged citadel of a fearful tyranny."

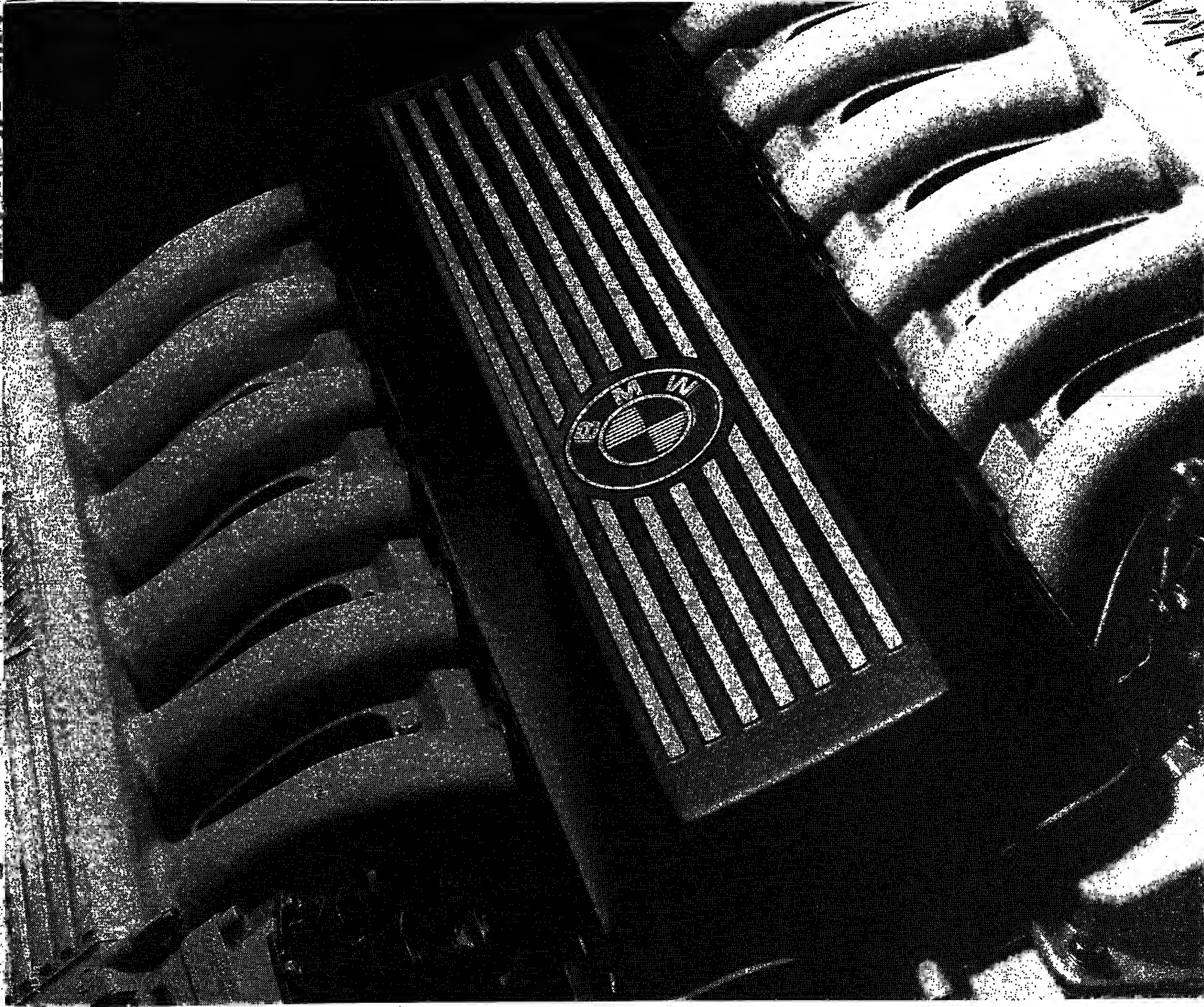
Jessica McClure, an 18-month-old girl who fell down an abandoned well shaft in Midland, Texas, was rescued Friday 58 hours after she was trapped. Doctors operated Saturday on her injured right foot and said they were hopeful they would not have to amputate it. During her ordeal, her right foot was jammed across her left leg, cutting off circulation and raising a threat of gangrene. The girl was freed from the shaft after round-the-clock drilling efforts by teams of rescuers.



WASH AND WORK OUT — In a combination laundrette-gym in San Diego, Gina Dahl works out on an exercise machine, which was installed to attract more customers.

Notes About People

Twenty-five years ago Michael



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# Lights Are Dim and Diplomats Grumble as U.S. Embassies Grapple With Austerity

By Richard Homan  
Washington Post Service

WASHINGTON — Lights have been dimmed in the corridors of the U.S. Embassy in Tokyo, spouses were left off the invitation list for an already down-sized Fourth of July reception in Cairo, high-ranking American diplomats in Tel Aviv have to share newspapers and, in several countries, visiting U.S. diplomats have become involuntary house guests of embassy employees instead of staying in hotels.

The cutbacks are part of an effort by the State Department to prepare for an anticipated \$84 million shortfall this fiscal year, dictated by congressional budget-shrinking. If it were nothing more than petty harassments like these, diplomats say, they would probably just

grumble and try to ride out yet another war on spending. But, in the view of diplomats interviewed by Washington Post correspondents in 13 major foreign capitals, essential activities are being jettisoned or severely cut back in moves that are likely to have a long-lasting detrimental effect on U.S. reporting from abroad.

The diplomats said the reductions were being felt especially in areas where the United States is in direct competition with beefed-up Soviet embassies.

Besides the closing of two small embassies and 13 consulates, diplomats point out, there have been sharp cutbacks in travel. This has forced U.S. officials to pay their own way to what they considered essential conferences, left them heavily outnumbered by Soviet

diplomats at others and, in London, forced the embassy to reduce its consular visits to dozens of Americans in British jails from once a month to four times a year.

Staff reductions have forced many political officers to take on the unfamiliar duties of economics officers, and vice versa, or even to double up as consular officers, issuing visas and passports.

As a result, many diplomats say they see a shrinking role for the State Department. In India, where the embassy faces a shortage of science and commercial officers, a diplomat expressed concern that more and more of the traditional foreign policy responsibility is being shifted to the Defense Department, the Central Intelligence Agency and the Na-

tional Security Agency where budgets seem to be more bountiful.

In Jordan, where only 30 percent of the U.S. Embassy personnel are State Department officials, a diplomat contended that "they can't cut more, squeeze this function more, without turning the embassy into a support service for other agencies."

A chief worry, U.S. officials abroad say, is that the Soviet Union, under the activist policies of Mikhail S. Gorbachev — and an apparently more generous budget for his diplomacy — is positioning itself to outstrip the United States in prominent regions of the world.

In India, the world's second most populous nation, cutbacks have left the United States with 96 professional diplomats and 260 support officials while the

Soviet diplomatic staff has grown to about 600. In West Germany, when the opposition Social Democratic Party held its national convention in Nuremberg last year, the Soviet Embassy sent six Bonn-based diplomats. The U.S. Embassy could afford to send only two.

A strong undercurrent in diplomats' discussions of the cuts is a bitterness toward Congress, which continues to impose heavy responsibilities on the embassies and whose visiting members, many complain, continue to expect first-class escort services from missions that they have reduced to second-class size.

"The same Congress that cuts our resources requires the same amount of reporting," a diplomat in Cairo complained, referring to annual reports or-

dered by Congress on subjects such as human rights and labor activities.

The embassy in Bonn tried to close the U.S. consulate in Düsseldorf because Congress provided no funds to operate it, but Congress ordered that it be kept open.

In London, Ambassador Charles H. Price 2d said he tried to anticipate the State Department's budget tightening with a cost-cutting drive that began two years ago. It was not enough. He said that the cuts now have reached the point where further ones still rumored would be "mind-bogglingly stupid."

Mr. Price has frozen the salaries of all local hires, who make up about half of the 800 London embassy workers. Official travel has been sharply reduced, and a political officer recently paid his own

way to Brussels because he felt his job required that he attend the annual North Atlantic Treaty Organization conference.

The London embassy, which issues about 700,000 tourist visas a year, has about 700,000 tourist visas in force. It is closed down a three-person "visa information desk" that answered queries by telephone and now simply sends form responses to written inquiries.

A blissfully unbothered exception to pressures to reduce spending is the U.S. presence in Moscow, which has spent the past year dealing with the sudden pull-out of all its Soviet employees, security scandals and problems resulting from the Chernobyl nuclear disaster.

"Moscow is such a top priority to Washington these days that money is the least of our worries," a diplomat there said.

# As Reminder to Managua, Contras Step Up Attacks

By Stephen Kinzer  
New York Times Service

MANAGUA — Nicaraguan rebels backed by the United States have mounted a series of attacks in recent days intended to show that the country will not achieve peace until their demands are met.

The rebels, known as contras, are having particular success in shooting down government helicopters. Managua confirmed that it lost two helicopters to hostile fire this week.

[Anti-government rebels said they shot down an air force transport plane in northern Nicaragua on Saturday. The Associated Press reported from Managua, but the Defense Ministry said the plane crashed because of mechanical problems.

[Both crewmen died when the Soviet-built An-2 plane went down in the Bramadero Abajo region of Jinaga Province, which borders Honduras, while on a routine flight, the Defense Ministry said.

[The contras' statement said the rebels downed the plane with a Redeye ground-to-air missile and seized weapons and ammunition from the wreckage.]

On the ground late last week, the contras forced the closing of the strategic Rama road, the principal east-west artery. Spokesmen for both sides said coordinated attacks were under way against several towns in the area.

"If they don't want to talk peace with us, then the war will continue," said Bosco Matamoros, a spokesman for the contras.

The Sandinist government has maintained that the contras are not an independent force, but a creation of the United States, which supports and finances them. The Sandinists have said they would therefore negotiate only with the United States.

Instead of talking with contra leaders, the government has sought



A Sandinist, left, and a contra debated politics Saturday at Las Manos on the Honduran border. A fifth "family reunion day" was proclaimed to let families split by war reunite.

to persuade individual contra field commanders to surrender and to accept amnesty. But thus far, few contras have accepted the offer.

The Central American peace ac-

cord, signed in August, requires that the government work toward a cease-fire, but the Sandinists maintain that in order to comply, they need only decree cease-fires on

their own, as they did last week in three small combat zones.

According to diplomats in Managua, the Sandinists are increasingly urged to soften their op-

position to contacts with contra leaders.

"Latin American countries are putting pressure on the Sandinists to modify their position on dialogue," a South American ambassador said. "We are telling them that governments are talking with armed insurgents in Guatemala and El Salvador, and that there is no realistic hope of stopping the war here unless the two sides talk to each other."

Reagan administration officials have said they intend to use the Sandinist refusal to talk to the contras to argue that Nicaragua is not truly interested in peace. They hope this argument will help them win congressional approval for renewed military aid to the contras.

Apparently in an effort to show their military strength, the contras have staged several raids in the north in recent days. But the latest attacks along the Rama road, which appeared to be one of the largest contra operations in months, were far more significant.

The government has closed the area to civilian traffic and has cut telephone and other communications links. Red Cross officials were appealing for blood donations, and ambulatory patients were reportedly being moved out of the hospital in nearby Jinagipa to make room for the wounded.

The area near the road has been a center of contra activity for years. But the attacks Wednesday were the most coordinated actions there since large numbers of contras entered the country from Honduran bases in December and January.

# Vise Tightens on Opposition in Panama

By Julia Preston  
Washington Post Service

PANAMA CITY — White Willian Wong, a travel agent, was driving home from work one recent evening, he got caught up in a home-tooting car caravan of anti-government protesters.

Suddenly riot policemen dragged him from his car, shoved him onto the floor of a paddy wagon and kicked him for 10 minutes.

Mr. Wong, 58, spent the night in jail. After being released, he was rushed to a hospital, where doctors removed a kidney ruptured in the beating.

"It was very bad luck" was his understated comment in a bedside interview.

The incident was an indication that the government, controlled by the military leader, General Manuel Antonio Noriega, has been slowly but firmly tightening its grip to quell continuing ferment in Panama, home of both the strategic Panama Canal and the Southern Command, the largest U.S. military operation in Latin America.

The government, blaming the mainly middle-class opposition for an economic slump, is seeking to silence daily street demonstrations with restrictive laws and intimidating harassment.

A recent report by Physicians for Human Rights, an independent group of American doctors, found that more than 1,000 Panamanians suffered significant injuries from bird shot used by the riot police

during the first three months of the demonstrations, which began June 9. At least six persons were blinded in one or both eyes.

Three Panamanians have been killed by gunmen since a severe crackdown began July 26.

General Noriega, in an interview Friday in a pro-government newspaper, said he was defending the country against a policy of "economic aggression" by the United States.

He labeled the opposition "descendants of Cain and Abel" who had "sold their souls to the devil trying to reach the seats of power."

Just before Mr. Wong's arrest, President Eric Arturo Delvalle considered a figurehead for General Noriega, made a stern nationally televised speech prohibiting further street protests.

Within minutes of his closing words, opposition protesters took to the streets in their cars and waved the white flags and handkerchiefs that have become their hallmark.

Just as quickly, riot policemen intercepted the caravan, smashing windshields with truncheons and arresting at least six Panamanians, including Mr. Wong, witnesses said.

Nine U.S. servicemen and an American Panama Canal employee were also rounded up by the police in different parts of the city that night and held until morning.

The mayor of Panama City,

Jilma Noriega de Jurado, a relative of the general, put the police and judges on notice that they should begin imposing prison terms of up to two years for such infractions as spreading leaflets, painting graffiti and "the unnecessary use of horns."

The arrests have continued. Five sympathizers of the National Civic Crusade, the opposition coalition, were picked up Oct. 13 in the northern city of Colon in police raids on a flower shop and a photographer's studio.

The government's actions have picked up pace with the approach of Thursday, when the opposition has scheduled a major march and general strike.

Wholesalers who have sold paper to the opposition for leaflets received police warnings that they could not sell more than a ream at a time, one stationery storekeeper said.

Last week the government sent the National Assembly a proposal for a new press law.

It prohibits printing any text that "offends the dignity" of General Noriega or anyone in government; bars "adulterated" economic news and any article that is "an apology for foreign intervention," and forbids not giving a source's name.

"The only clause this law doesn't have is the one outlawing use of the words 'pinapple face,'" said a Christian Democratic legislator, Willie Cochez. That term is used by

General Noriega's detractors to refer to his pitted complexion.

In fact, the proposal does include an article prohibiting references to "physical defects" of government leaders.


Mr. Delvalle has indicated that once the law is passed, the government will allow the opposition press, closed in late July, to reopen.

Editors of three closed newspapers have not decided yet whether they will resume publishing under the new law.

U.S. Army to Use AIDS Test in Trial

New York Times Service  
NEW YORK — A U.S. Army appellate court has ruled that results of a test for the AIDS virus may be used to help prosecute a soldier who is accused of having sexual relations with three people after learning that he was infected.

The court-martial at Fort Huachuca, Arizona, has been suspended since August while the parties awaited the appeals ruling. The defendant in the case is Private First Class Adrian Morris Jr., 27, a clerk at Fort Huachuca who is believed to be the first person ever prosecuted for aggravated assault on charges of having unprotected sexual relations after learning that he was carrying the virus for acquired immune deficiency syndrome.



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Britain Clash





Prime Minister Margaret Thatcher of Britain, with her foreign secretary, Sir Geoffrey Howe, displaying a document at the Commonwealth conference in Vancouver.

### Britain, Commonwealth Clash Over South Africa

By John F. Burns  
*New York Times Service*

VANCOUVER, British Columbia — Outbursts by fellow Commonwealth leaders against Prime Minister Margaret Thatcher of Britain marked the conclusion of the 47-nation Commonwealth conference here.

As expected, Mrs. Thatcher refused to endorse any new economic sanctions against South Africa, and she maintained her position that those already adopted by Britain and other Commonwealth members are more likely to retard than advance the end of apartheid.

She also refused to join other Commonwealth nations Saturday in an effort to monitor the enforcement of those sanctions.

The result was a statement by the conference that affirmed the need for "wider, tighter, and more intensified application" of sanctions by all nations, and an effort to see that the Commonwealth measures, and those adopted by the United States and the group of Nordic countries, are adopted worldwide.

But the sections of the statement dealing with sanctions included an explicit dissent by Britain, which has the largest trade and investment ties with South Africa.

After the statement was released, a group that included Prime Minister Rajiv Gandhi of India, Prime Minister Bob Hawke of Australia, President Kenneth Kaunda of Zambia and Prime Minister Robert Mugabe of Zimbabwe assailed Mrs. Thatcher for her stand.

Although Britain has been at odds with its Commonwealth partners over South Africa before, the vehemence of the criticism went beyond what has been customary at these gatherings.

"I am completely disillusioned, and dismayed," Mr. Mugabe said, referring to the disparagement of sanctions, sometimes in mocking tones, offered by Mrs. Thatcher and British officials to reporters during the five-day conference.

Mr. Hawke was joined in his

### Rebel Cleric May Regain Legal Status, Vatican Says

By Roberto Suro  
*New York Times Service*

ROME — The Vatican has announced plans to restore legal standing to a rebel French archbishop and his outlawed following of traditionalist priests, in a move to mend fences with one of its most vociferous critics.

The French archbishop, Marcel Lefebvre, who rejects the changes of the Second Vatican Council and who has accused Pope John Paul II of "blasphemy," spent an hour Saturday morning with the pope's primary exponent of orthodoxy, Cardinal Joseph Ratzinger.

Afterward, the Vatican announced that John Paul would appoint a personal representative to investigate the archbishop's priestly order and establish new regulations for it.

The Vatican said the talks with Cardinal Ratzinger, prefect of the Sacred Congregation for the Doctrine of the Faith, the Vatican theological watchdog, had taken place "in a climate of communion."

There was no indication of whether Archbishop Lefebvre had agreed to modify any of his positions, which have caused some in the Vatican to consider him a very dangerous dissident.

Negotiations leading up to the action Saturday began earlier this year after the archbishop threatened to ordain several bishops without Vatican approval, the most severe form of rebellion in the Roman Catholic Church. The pope, according to Vatican officials, was anxious to avoid this because church law would have required him to excommunicate the archbishop and formalize a schism, an outright break with the archbishop's followers.

Archbishop Lefebvre has become something of a hero to some highly traditional Catholics, especially in Europe, because he and his followers insist on saying the Mass in the old Latin form. He has also rejected the church's modern teachings on religious liberty, which were codified more than 20 years ago by the Second Vatican Council.

A long period of consultations and study will be required before final action can be taken on the archbishop's case, Vatican officials said, indicating that important unresolved questions could undo the peace-making efforts.

In 1975, the Vatican withdrew its approval of the archbishop's society, the Priestly Society of St. Pius X, and the next year Pope Paul VI suspended the archbishop from functioning as a priest or a bishop because he disobeyed a direct papal command to stop ordaining priests for his society.

Since then, Archbishop Lefebvre has opened affiliates around the world of his society, which has its headquarters in Ecône, Switzerland, and has continued to ordain priests.

### Avant-Gardists Dominate Paris Ready-to-Wear

By Bernadine Morris  
*New York Times Service*

PARIS — Jackets are losing their shoulders, bosoms are popping out of deep décolletages and long gloves and hats are returning to fashion. These are some of the trends emerging for next spring and summer from the full schedule of ready-to-wear openings over the weekend. The avant-gardists have dominated the runways in the tents at the Louvre and other locations around Paris.

Jean-Paul Gaultier is a prominent cult figure credited with leading fashion down bold new paths. Five thousand of his fans traveled to former slaughterhouse district of La Villette to check his blueprints for the future. The bare-shoulder suit is one of his big contributions. Along with pads and collars, the



Karl Lagerfeld's updated 18th-century ball gown in navy organza, with a corsetlike bodice of Marie Antoinette.

He also shows some relatively conventional jackets shaped with hourglass curves. He started this last season and obviously they have caught on.

That's the good news. The bad news is that the Gaultier obsession with underwear, especially girdles and bras, continues. Jackets and jumpsuits have padded bra tops. A ringer for a high waisted girdle serves as a skirt with a denim jacket and dresses mimic old-fashioned corsets with laces at the back or zippers at the front.

Thierry Mugler's theme for the season is Africa. He presented his collection at the Museum of African Arts near Vincennes for verisimilitude. There was so much action nobody paid much attention to the clothes. Inan, the splendid mamequin, tried to lead a reluctant tiger cub down the runway. The tiger balked, but Inan eventually won. Who knows what she wore? Something short in creamy leather with a lot of matching horsehair. Then there was the group of bare-chested men and women in loincloths? Are loincloths coming back?

What about the African look? Well, there were tree-bark prints, miles of gold bangles running up the arms and neck, and a safari jacket or two.

Never mind the specifics. People will be talking about the performance for a long time.

Claude Montana, whose shows once recalled the Ziegfeld Follies, now concentrates on clothes. His collection is filled with meltingly pretty colors — pale rose, aqua, chartreuse and shades of blue look girlish and decorative in cotton poplin and smooth leather. Jackets are often long and skirts are very short. The skirt seems to be withering away. Montana often replaces it with shorts. Navy shorts and white blouses make an attractive group of styles. Short matching gloves turn up with most outfits.

A mysterious touch is the pouched protrusions in the front of jackets and at the waistlines of some skirts. Some observers felt they were there to carry mad money or prostheses, but there's probably a better reason.

Once filled with aggressive tailored clothes, the Montana collection is now soft and decorative. It is

one of the pleasantest collections to be shown so far, if you're not put off by very short skirts.

Karl Lagerfeld's message is more diffuse. Hardly a fashion point is left untouched in the collection of 160 pieces that ranges from stinky contemporary looking knitted clothes to updated 18th-century ball gowns. Very full long skirts over very short underskirts is one of the current interpretations of the Marie Antoinette look. Very short and full skirts is another.

The accessories were as riveting as the clothes. Rounded straw hats framed the head like halos. Gloves had each finger in a different color or were boldly striped gamuties. Bracelets were made of makeup brushes or lipstick joined together.

The watchword was "sexy" as bosoms popped out of low necklines, waistlines were taut and dresses were cut like slips and edged in lace. One short skirt dress was made of lacquered polka-dot pictures. Lagerfeld pours ideas out in breathtaking profusion in his first collection under the aegis of Revillon.

Marc Audebert didn't fare as well this season as he did with his last collection when he concentrated on

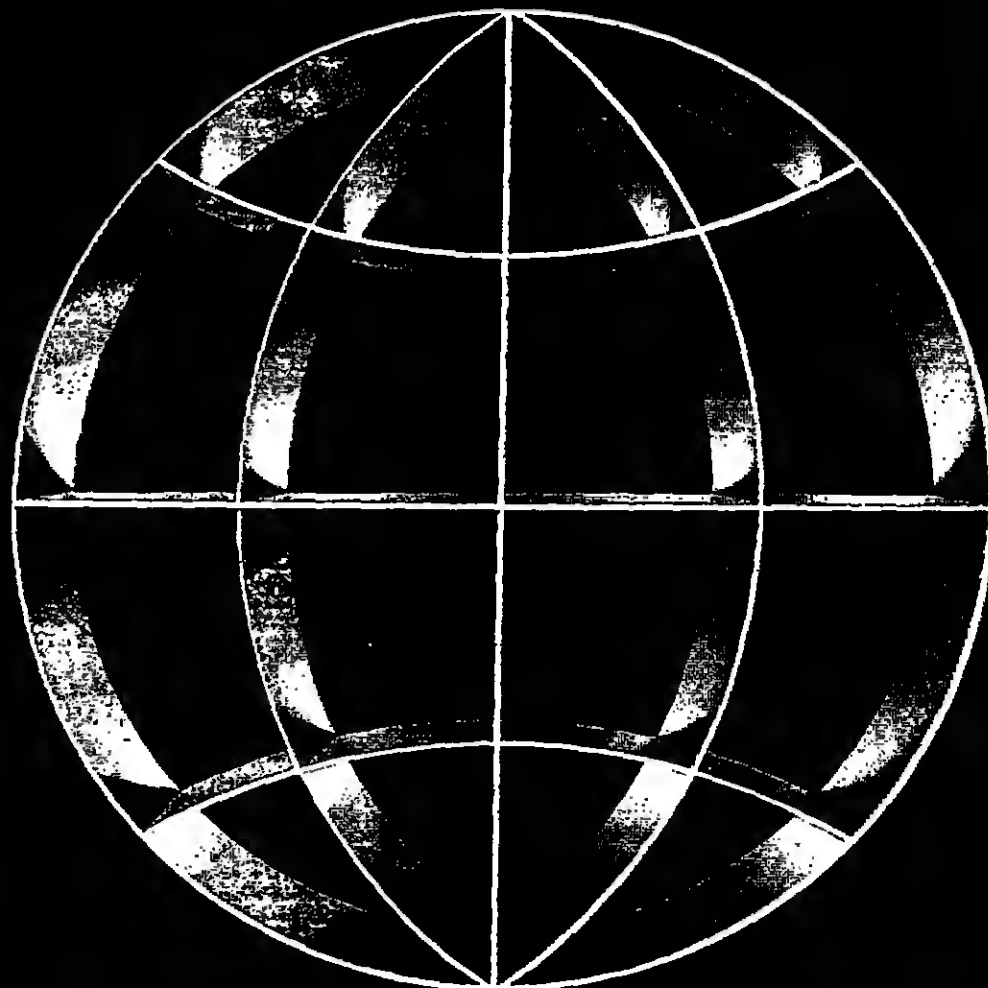
**Soviets Reach 283 Million**  
*United Press International*

MOSCOW — The population of the Soviet Union stood at 283.8 million on Oct. 1, Tass reported. The figure, given in a brief dispatch Saturday, showed that the Soviet Union has the third-largest population in the world after China and India.

### Typhoon Kills 6 in Japan

TOKYO — A typhoon designated Kelly, packing winds of up to 79 miles per hour (126 kilometers per hour) killed at least six persons as it cut a swathe across Japan, officials said Saturday.

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# Stinger Missile Parts On Iranian Ship Were Sent by U.S. to Afghans

By Stephen Engelberg and Bernard E. Trainor  
New York Times Service

WASHINGTON — U.S. intelligence agencies have established that the Stinger missile parts found on an Iranian attack boat in the Gulf this month were part of a hatch supplied by the United States to Afghan rebels, who lost them to Iranian forces in June.

Reagan administration officials said the Afghans had lost the missiles in a skirmish with Iranian troops who surprised them after they crossed the Iran-Afghanistan border.

The officials said that there were casualties on both sides from the exchange of fire, but that after the Iranians called in reinforcements, the guerrillas were overwhelmed and their load of as many as 30 Stinger missiles was taken.

Officials gave various estimates of the number of missiles involved. One said that 30 were lost, while two others said that the number was 8 to 10.

They said the capture of the missiles then touched off an intense round of diplomatic activity. Pakistani officials and the Afghan guerrillas, appealing for solidarity with the Islamic cause, tried to convince Iran to return the missiles. U.S. officials said they believed that the talks, which are continuing, now had little chance of success.

The missile parts, including a battery marked with a serial number, were found aboard one of two Iranian patrol boats captured by the U.S. Navy in the Gulf on Oct. 8 after they fired at U.S. helicopters.

Officials say they are convinced that reports that the Afghan groups had sold some of the missiles to Iran are untrue. They say they have no evidence to contradict the story of the missiles' capture as told by the Afghan commanders.

Several officials cautioned that the investigation into the loss of the Stingers was continuing and that officials were leaving open the possibility that the Afghan rebel commanders might not have told the whole truth.

"We have no reason to doubt there was a firefight," one official said.

The conclusion that the hatches were originally part of a shipment of weapons from the United States to the Afghans is significant because it is likely to revive a debate in the administration and Congress over whether and under what circumstances such high-technology weapons should be provided to guerrilla groups. The Central Intel-

ligence Agency, operating in close cooperation with the government of Pakistan, has been covertly supporting the Afghan rebels for nearly seven years.

After sharp internal debate, the administration decided in 1985 to begin supplying the rebels with the weapons. Some military officials objected because they feared the weapons could be captured or lost and then used against U.S. forces.

Officials said that knowledge of the capture of the Stingers was initially kept to a very small group of officials in hopes of maintaining secrecy over the Pakistanis' diplomatic efforts. But they said that the Joint Chiefs of Staff and the commander of Gulf forces had been among those who were alerted.

Officials insisted that the Pentagon had been given sufficient notice to insure that U.S. aircraft patrolling the Gulf were prepared to counter the threat presented by the Stinger, a shoulder-fired weapon that has been used with devastating effectiveness against Soviet aircraft in Afghanistan.

The Stinger comes in several versions; officials said that the Afghans have been sent only the basic Stinger. The officials said U.S. aircraft were equipped with advanced flares to deceive the heat-seeking missile.

Officials said that it was possible for the Iranians to learn how to fire the relatively small number of Stingers they have captured, but that it was unlikely they could begin mass-producing their own copies. Iranian officials have said in recent days that their country was now making Stingers.

One official added, however, that Iran could well sell one of the Stingers to the Soviet Union, which has the technological know-how to produce a replica.

As pieced together from accounts by more than a half dozen administration officials, the loss of the Stingers began in early June when a group of Afghan rebels was making its way along the southwest corner of Afghanistan in Nimruz Province, near the Iranian border.

The officials said that because the group came to a river too deep to ford, it was forced to change course and crossed into Iran while going around it. By another account, the Afghans were running short of gasoline and decided to search for fuel inside Iran.

While there is some disagreement over what motivated the Afghans to cross the border, the officials agree that the Afghans were in Iran when they were discovered by Iranian forces.



Ida Nudel, a Soviet economist and celebrated Jewish activist, who arrived in Israel on Thursday after struggling to emigrate for 16 years, with Secretary of State George P.

Shultz on Sunday. She was speaking from Jerusalem to President Ronald Reagan, who was visiting his ailing wife, Nancy, at the Bethesda Naval Hospital in Maryland.

## GULF: Reagan Reaches Decision on a U.S. Response but Won't Disclose It

(Continued from Page 1)

11 tankers that Kuwait registered in the United States last summer to qualify for U.S. military protection in the Gulf.

A U.S. official accompanying Mr. Shultz said that the Saudi leadership had made clear to the secretary its desire for a U.S. military response to the recent attacks. Hardly anything the United States might do would be excessive in the Saudi view, the official said.

The state-controlled news media in Kuwait called Saturday for strong U.S. military retaliation. A Kuwaiti newspaper characterized

the attack as a "direct challenge to the United States, whose naval task force has undertaken to defend freedom of navigation in the Gulf."

Mr. Shultz reported that Kuwait would take the missile attacks to the United Nations Security Council either on its own, in concert with other nations of the six-member Gulf Cooperation Council or with the Arab League, with the United States favoring the course of a collective appeal.

The Saudi foreign minister, Prince Saud al Faisal, said in an interview that his government had been in diplomatic contact with

Kuwait and that "Kuwait has the full support of the GCC and the Arab League in whatever action it decides to take."

Mr. Shultz confirmed that the United States had exchanged written messages with Iran on the two nations' purposes in the Gulf, but he denied a report that the U.S. messages spelled out in detail the Iranian actions that would lead to American retaliation.

"We're not going to tell them our game plan," he said.

The basic message to Iran in the diplomatic communications, according to Mr. Shultz, was that

"we're there to protect our interests and those of our friends and allies. We're not there in an aggressive posture."

Meanwhile, an Iranian naval commander charged that U.S. forces had "badly tortured" four wounded Iranian Revolutionary Guards during their detention after an armed clash in the Gulf. Tehran's official press agency, IRNA, reported Sunday.

The men, who were wounded when U.S. forces attacked three Iranian boats Oct. 8, were repatriated Saturday through neutral Oman.

## POLICY: U.S. Ponders Gulf Role

(Continued from Page 1)

acutely aware of miscalculations in the last three months about Iran's readiness to risk direct confrontation with the United States, seem to be weighing closely this time how — or whether — to make the next step up that ladder.

From the beginning, administration policy-makers have offered changing definitions of U.S. objectives, ranging from the limited task of protecting only the 11 reflagged Kuwaiti ships to defending the free right of navigation in the Gulf's international waters for all shipping.

The rules of engagement laid down for U.S. warships escorting reflagged Kuwaiti tankers do not now extend into Kuwaiti waters.

But several other stated U.S. commitments would seem to require some U.S. action.

For example, a State Department spokesman, Charles E. Radman, said at a Sept. 9 news briefing that while there was no certainty what the United States might do if a U.S.-flagged ship was hit by Iran inside Kuwaiti waters, "we protect U.S.-flagged shipping throughout the world, wherever it is."

The other commitment, renewed by Secretary of State George P. Shultz as recently as Thursday, has been to tell Iran that the United States is determined to show its resolve to help its Arab Gulf friends defend themselves against Tehran's threats and to keep the Soviet Union out of the Gulf.

The U.S. purpose, he said, is "to see to it that Iran does not succeed in becoming dominant in the Persian Gulf by intimidating and bullying the Gulf states, and that the Soviet Union does not become, in a sense, the protector of those vital supply routes."

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## PUMPKINS: The Heavyweights

(Continued from Page 1)

until Stephen, who had come across the method in a sci-fi film called "Dark Star," sent for a news sheet on hydroponics from the Encyclopedia Britannica, bought a packet of seeds and failed utterly to yield a prize at all.

"At least I got a fruit," he says. "Somebody said I had a lot of guts and willpower; I thought, 'Blimey, that's a nice thing to say.'"

Stephen didn't compete this year as he didn't have a suitable entry, but watch out next year. Although Stephen is too nice a guy to have the killer instinct a champion needs, he is probably on to a good thing. To grow a giant pumpkin normally requires 250 to 300 square yards of space. Stephen's pumpkins grow neatly on shelves in his backyard.

They are housed in a pumpkin-shaped greenhouse that Stephen designed and built, with a De Lorean-style gull-wing door, and they are fed by drip tubes containing nutrients. Whenever he thinks he might get a few quids' worth of sponsorship out of an interview, he says he feeds his pumpkins beer.

"I rise to the occasion," he says. "If it's Australian TV, I say it's Foster's lager; if I have American TV, I say I always give them Budweiser. I'm hoping someone will say, 'Listen, we can buy you a few grand if you give them Budweiser.'"

No one has, and keeping pumpkins warm and well fed is not cheap.

"I would have thought they'd grow bigger," he said, "because they've got a more leisurely life style, just sitting on their shelf. At the end of last year when the nights started drawing in, I bought an artificial sun lamp — cost me 290 quid — and stuck that in trying to trick them into believing it was summer." The pumpkins were not fooled.

He has tried talking to them — "I threaten them, curse them, tell them I'm going to cut them off at the roots" — and he plays them rock 'n' roll.

"It's a bit eccentric, I know," he said, "but it might give me an edge. I know people play Liszt and Beethoven and that sort of thing, but I thought I'd try rock 'n' roll because I've got the tapes." Chuck Berry and Eddie Cochran haven't done the trick, so Stephen is planning to form a live rock group and is learning guitar.

"I don't want to be like Eric Clapton or Segovia or anyone like that," he said. "I just want to play basic rock 'n' roll. I practice every night. I'm going out tonight because I get on me mum's nerves."

Last year's measty 50-pounder ended as a jack o' lantern photographed with Stephen's expensive American guitars as a promotion play when he has a pumpkin to promote. Right now, he says he



Stephen Liddard grows pumpkins hydroponically.

thinks the problem is seeds, and what he wants to do is get giant seed from Robert Gancarz, the American world title holder.

"I wrote to him, 'World Champion on Pumpkin Grower, New Jersey, New York, U.S.A.,' and I said: 'Listen, send me some of your champion seeds and I'll grow them in England. If I win the 12 grand I'll split it with you.' The envelope came back, 'Not Known.'"

Stephen didn't even know how to say hydroponics when he started. "I knew nothing about pumpkins; I never even seen a pumpkin," he said. "The only one I ever seen was in Cinderella."

For someone so green, he has already made a mark in the pumpkin world, and he says Pam Deschamps of Garden News was sad to

hear that he would not be competing this year. "But I said, 'Next year,' and she said, 'We'll be looking forward to that with anticipation.'"

This was nice, he says, because the pumpkin world has not been all that welcoming. "Most people, when it comes down to the mitty, gritty, don't want to know," he said. "I had a nutter here said he was an experimental engineer and a member of Mensa. He wanted to sell the greenhouse in the U.S. He said, 'How about if you mount a bike inside and cut a hole in the roof and make it a mobile observatory, and when you pedaled it would turn.' He's a nutter, I thought."

It isn't easy to be a pioneer, but sure as God made little pumpkins, Stephen will stick to it and with luck may win the prize and live happily ever after. In the meantime, he has another hobby: customizing cars. If he ever gets a pumpkin big enough, he can turn it into a coach.

# Shultz Exhorts Israelis To Revive Peace Effort

By Don Oberdorfer  
Washington Post Service

JERUSALEM — The U.S. secretary of state, George P. Shultz, wound up three days of meetings with the rival leaders of the Israeli coalition government by calling Sunday for "energy, unity and resolve" in restarting an Arab-Israel peace process and warning that "no one helps the chances for peace by doing nothing."

Mr. Shultz's remarks at his only public address in Israel were interpreted by Israeli journalists as critical of Prime Minister Yitzhak Shamir, who has vetoed the diplomatic initiatives of his rival, Foreign Minister Shimon Peres.

In a news conference several hours after the speech, however, Mr. Shultz went out of his way to praise Mr. Shamir's desire for peace and announce that the prime minister would pay an official visit to Washington next year.

Mr. Shultz met three times with Mr. Shamir and three times with Mr. Peres — but never with the two men together — during a three-day visit that was interrupted by a trip to Saudi Arabia on Saturday.

He said that "I can't point to any particular thing and say, look, we've moved from here to there" as a result of the discussions.

Mr. Shamir has resisted a proposed international conference on peace in the Middle East, which has won the endorsement of the Arabs, the Soviet Union and his coalition partner, Mr. Peres.

Mr. Shultz pledged that the United States was willing to explore the idea of such a conference, although the government has not endorsed it.

In his address, to the Weizmann Institute in Rehovot, the secretary declared that "those who are reluctant to explore new ideas, or even revisit old ones, have an obligation to offer something different as an alternative to the status quo."

Questioned about the statement in his news conference, however, Mr. Shultz insisted that this did not apply to the current Israeli government talks, saying he had found "eagerness to discuss the peace process on all sides."

The one area of open discord was between Mr. Shamir and nine Palestinian leaders from the West Bank and Gaza, who refused an invitation to meet him.

Mustafa Naisbe, former mayor of Hebron and spokesman for the group, said, "Our people refused to come as a kind of protest against American policy."

He charged that U.S. policy "ignores our national rights, our right to self-determination and our right to have our own state, and refuses to recognize the Palestine Liberation Organization as our sole legitimate representative."

Mr. Naisbe said the group was particularly angry at the recent State Department order to close the PLO information office in Washington.

Mr. Shultz said "it is too bad for them" that the Palestinians had refused the invitation to talk because "Palestinians keep saying they want representation, they want to be heard, that they want to be listened to, that they have ideas that they have an important role."



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## TEST: U.S. Commitment

(Continued from Page 1)

and the Soviet Union last month agreed to step-by-step negotiations to improve procedures to verify compliance with a treaty and set limits on nuclear testing.

"The ultimate objective," said a joint statement, is "the complete cessation of nuclear testing as part of an effective disarmament process."

"The administration is entering this negotiation clearly opposed to the stated goal," said Spurgeon M. Keeney Jr., a former government arms control official who is now president of the Arms Control Association, a private organization that seeks to promote nuclear weapons accords.

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# French Banking

## COUNTDOWN To Deregulation

**March 1986: Stock Market Launches Early Session**  
The Paris Bourse begins a morning trading session, added to the present two-hour afternoon session. Thirty leading French shares are being traded in the new session, held between 9:30 A.M. and 11 A.M.

**May 1986: Rules for Buying Securities Are Loosened**  
Residents are able to purchase foreign securities on external financial markets without having to obtain the necessary foreign currency by first selling other foreign securities.

**June 1986: Computers Alter System of Trading**  
Computerized trading is installed from 10 A.M. to 5 P.M. One year later, 83 stocks were being traded all day. The system is expected to apply to the whole market by the end of 1988.

**September 1987: Traders Get Options Exchange**  
First stock options exchange is created. In addition, an index-based option is expected to be launched by the beginning of 1988.

**Jan. 1, 1988: Liberalization Of Bank Stocks Scheduled**  
Through legislation being debated in the National Assembly this fall, the 45 Parisian banks and 15 regional firms will be allowed to sell up to 30 percent of their capital to outsiders. This figure will rise to 49 percent in 1989 and to 100 percent in 1990.

**In 1992: Monopoly Ends**  
The present brokers' monopoly in the market ends. The number of seats on the Bourse, now at 45, is to be increased by an unspecified number.

### Strengths and Weaknesses

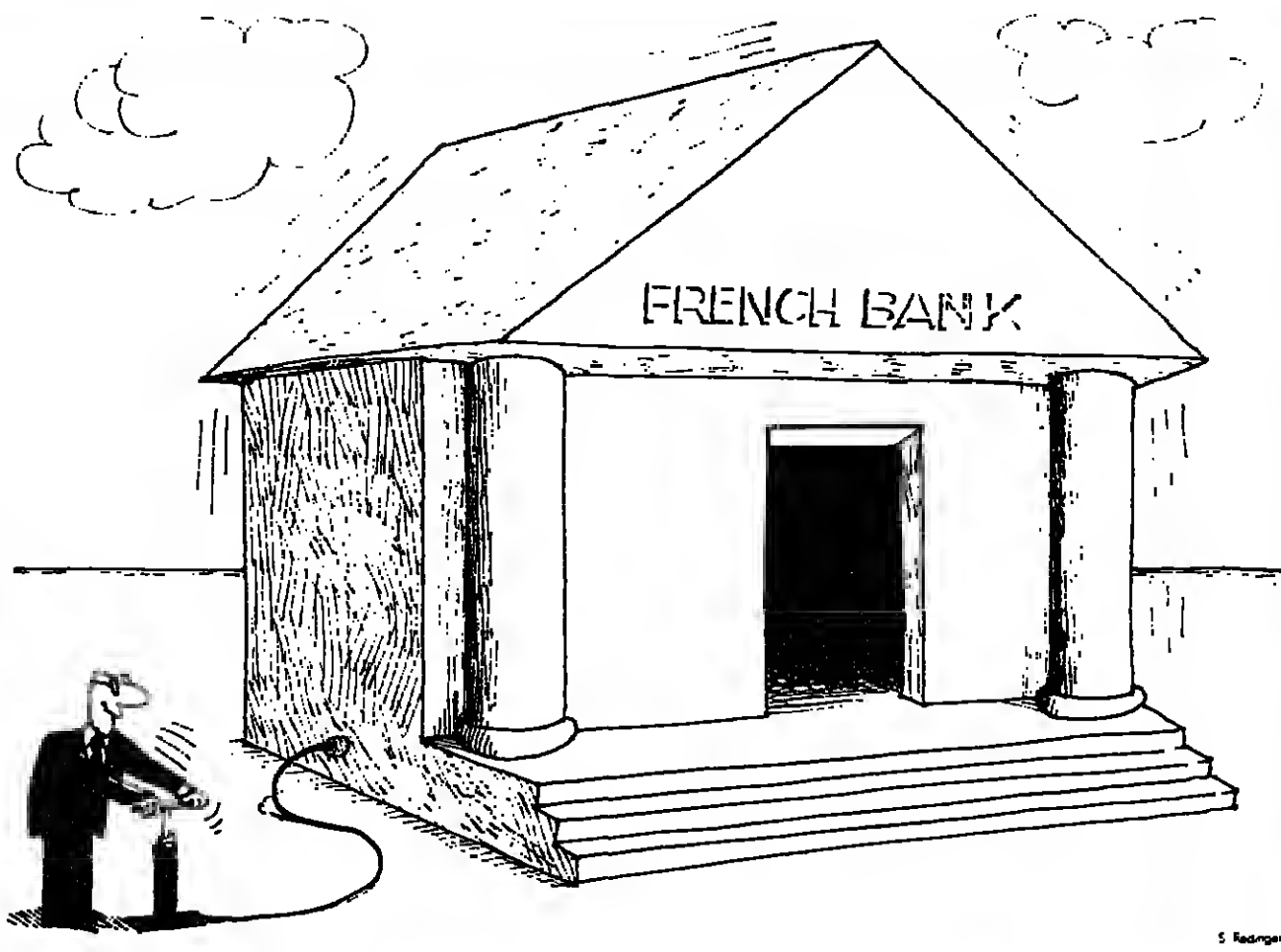
## Bankers Hone Bid For EC Leadership

By Robert Pouliot

PARIS — Still shaken by the effects of three years of change in the industry, French banking is facing a rough ride to 1992 if it wants to win the European leadership in finance. "Unless we move fast, we will get buried deep into our hexagon," said Henri Moutard, managing director of the Société Lyonnaise de Banque. His \$7 billion bank aims to recreate a "Latin arc" in finance by linking Lyon, Geneva, Milan, Turin and Barcelona with Monte dei Paschi.

While the United States is still debating over the Glass-Steagall Act and cross-border state banking, the lifting of all barriers to capital movements within the European Community has become the top challenge of French banks, with 300 branches, subsidiaries, representative offices and associated institutions spanning the EC. "Despite our heavy international network," said Olivier Robert de Massy of the powerful AFB, the French bank association, "we still might be too light in Europe," with one foreign unit out of five operating on EC grounds.

Continued on page 8



## Privatization Goes Ahead Without Investor Enthusiasm

By Julian Nundy

PARIS — Despite the overall lackluster performance of French stocks this year, France has pressed ahead at full speed with privatization — the cornerstone of Prime Minister Jacques Chirac's "liberalism."

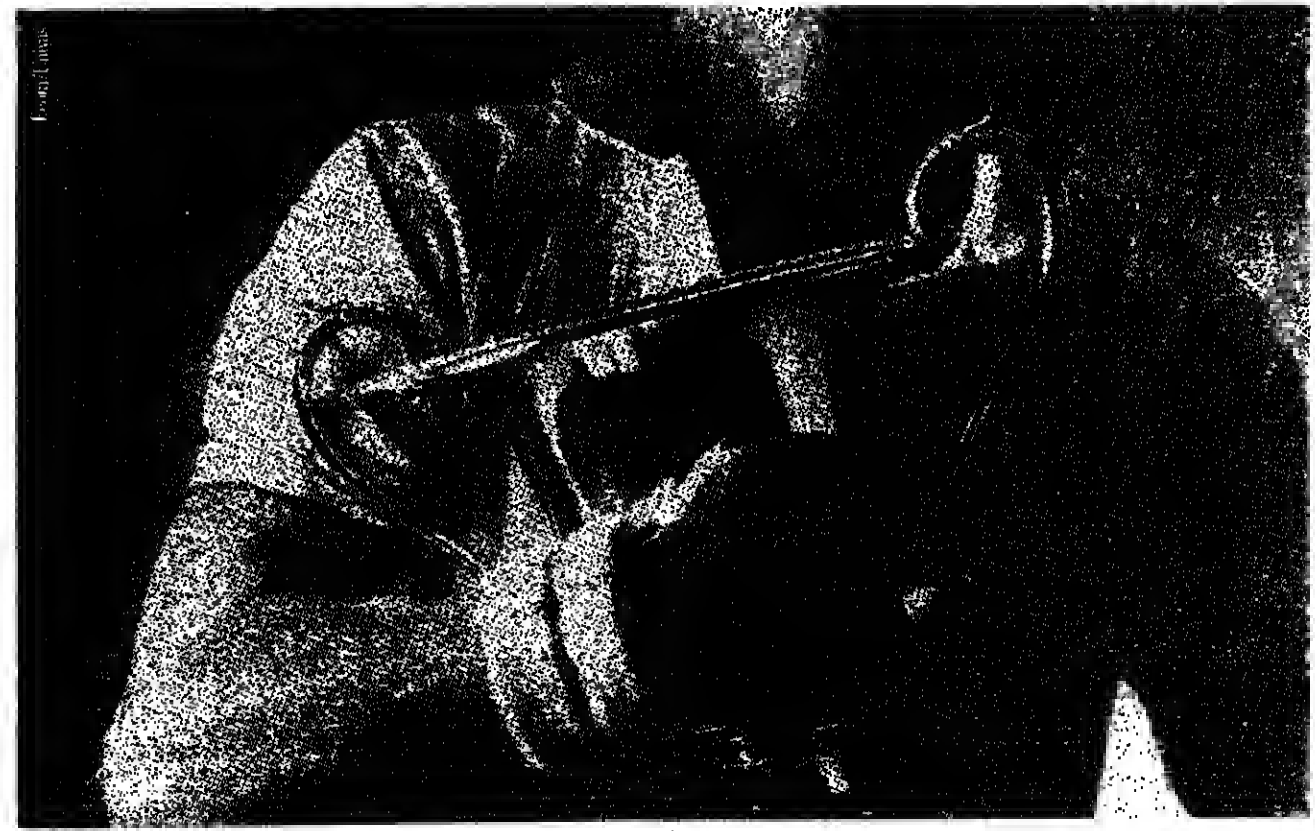
Mr. Chirac's center-right allies in the Union for French Democracy, regularly attacks the program, it is one that seems to inspire little disapproval in the general public. The complaints about the policy have ranged from charges that Finance, Economics and Privatization Minister Edouard Balladur was underpricing privatized stocks to one that he has been showing excessive favoritism to his political friends when awarding shares to the "hard cores" of investors that control the denationalized companies.

But there is a wide disparity between the performance of the privatized stocks, Saini-Gobain topped the list with an increase of 64.5 percent. The worst performer so far has been Société Générale, with only 3.4 percent since its privatization in June.

Saini-Gobain, while it has been outperformed this year by 25 of the 230 stocks on the main monthly settlement board at the Bourse, remains an excellent buy, bankers say. "It's been one of our best investment stocks and we are still recommending it," one investment counselor said.

Of the first 11 privatizations, seven were banks and the 12th, due by the end of this year, will be France's largest insurance company, the Union des Assurances de Paris, which is only the 45th largest in world terms.

Continued on page 8



## The winning route to Europe.

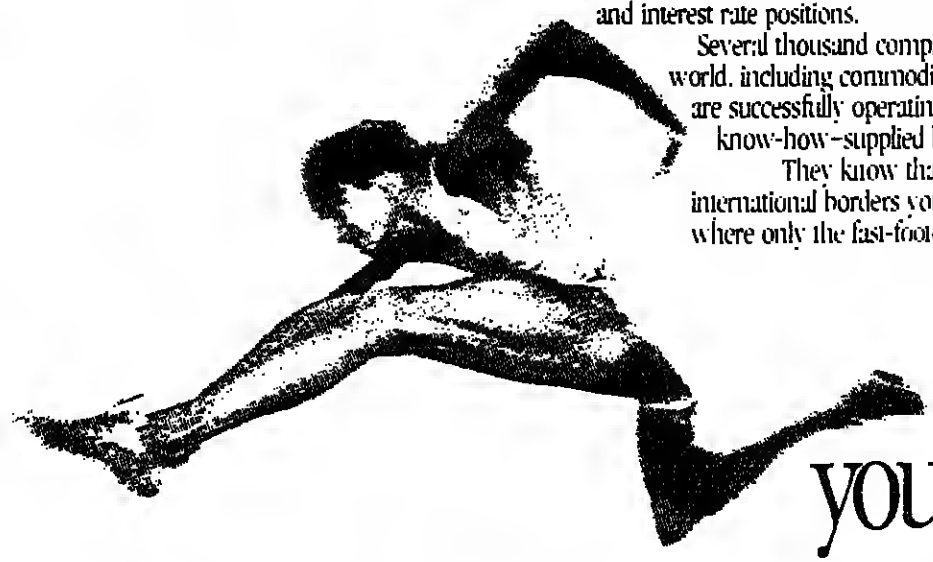
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# Capital Markets Spur Innovations in Mortgage-Backed Securities

By Linda Keslar

**P**ARIS — The potential boom in mortgage-backed and other forms of asset-backed securities here is so certain that at least one major U.S. investment bank that is looking to develop business in the market will not even talk about it.

"The market could develop very quickly," is all the investment banker would say. "We don't want to call attention to it and alert our competitors to our interest."

Salomon Brothers, a major underwriter of U.S. mortgage-backed securities, is mute as

well on the issue of innovations in this particular area of the French capital markets.

While U.S. lenders have been pooling mortgages into debt securities for more than a decade and are now bundling other assets, such as credit card receivables, into new instruments, securitization of mortgages in one form or the other is just now taking place in Canada and Britain, and in a more limited way, in France. The method requires major lenders to home owners here to bundle like mortgages together, back them with a guarantee of sorts to assure creditworthiness and create debt instruments that can be traded in the bond market.

"The financing concept took 15 years to

cross the Atlantic, and now the question is how long will it take to cross the Channel," said Didier Negrier, a manager at McKinsey & Co., the management consulting firm, at its Paris office.

The single-family housing market was the stimulus that led to the explosive growth of asset securitization in the United States, which mushroomed to \$270 billion last year. Most of these securities were collateralized by mortgages and developed as a way for banks and thrifts to raise funds and disperse the risks of lending to homeowners.

In France, however, the \$46 billion mortgage market is heavily subsidized by the government, which directly underwrites the mortgage

loans made by most banks, thrifts and specialized lenders here. But the deregulation of the French banking sector is creating a new competitive environment, one in which its players are becoming more concerned with ways to manage interest rate exposure on their balance sheets. Asset-backed securities can allow a bank or thrift to transfer what had been its risk to the investor in those securities and relieve its balance sheet at the same time.

For France, the time is ripe for such innovations due to the changes sweeping over the banking industry. A major shake-up has been created by the development of new instruments and markets, like commercial paper and certificates of deposit, that have allowed major

French corporations to go directly to the capital markets for funds and bypass banks completely.

A drop in their traditional source of funds is leading more French banks to look at alternatives, and the type of off-balance sheet financing offered by asset securitization, may be the norm in five years or so, said one expert.

"I could see it then, as banks are becoming more capital-ratio conscious," said Philippe Masson, a principal of McKinsey in Paris. Moreover, several of France's largest national banks are also being privatized, which also changes their profit motives.

But bankers say the factor looming largest on the horizon for French authorities is 1992.

when all the barriers that separate the financial services markets in the European Community countries are to be swept away. That is giving banks here more incentive than ever to become competitive with their international counterparts.

McKinsey, for one, has been studying what profound changes this is having on the French financial community.

"We're looking at how the mortgage-backed market developed in other countries, what financial and regulatory changes must be accomplished," said Mr. Masson.

LINDA KESLAR is a financial journalist based in New York.

# Companies Discover World Equity Market

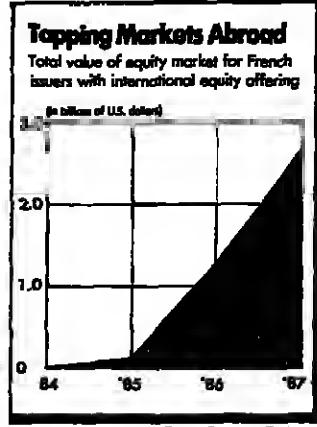
**P**ARIS — The world is wooing French equities these days. While the Chirac government's privatization plan will increase the market capitalization of the Paris Bourse by an estimated 25 percent, heightened international investor demand is also leading many French companies to directly offer their shares abroad for the first time.

However, with the sweep of privatizations, many of which have sold portions of their offerings directly to investors abroad, the Bourse is thriving, with trading volume up 50 percent for the first six months of this year. So much so that some private sector companies first approached international equity financing for fear that the privatizations would saturate investor demand in the Paris markets.

"If anything, the contrary has been true. The French market is strong, regardless of privatizations," noted Ludovico del Balzo, an executive director of Shearson Lehman Brothers in London.

All the same, the large scale of the privatizations has certainly helped. Compagnie Générale d'E-

lectricité, the telecommunications group, for example, issued the largest French offering ever and was worth about \$1.06 billion, 20 percent of which was sold to British, German, Swiss, American and Japanese investors through a separate international stock syndicate.



Source: Economy Expertise

By comparison, the international flotations by the French corporate sector have been noteworthy more for their incidence than size. Peugeot, the French carmaker, for example, sold more than half its 2.375 billion new shares worth \$395 million directly to foreign investors this summer by syndicating the stock globally through a wide range of investment banks. The shares retailed for \$166 apiece, and it marked the first time the company targeted a stock offering to investors outside France.

While the internationalization of ownership of French companies is a positive trend, it could lead to some unwelcome changes. For one, said Ms. Kadevan of Salomon Brothers, French companies have had to wake up to the uncomfortable fact that they can now become targets of hostile bids from both French and international raiders.

"French managements do not have the same kind of control with their shareholder bases broadening," she said.

But it also gives companies more potential spending power to make acquisitions themselves. "There could be an accelerating trend of French companies buying other foreign companies through stock offerings," she said. This could lead to some mammoth cross-border combinations, since, before now, corporations' means of raising cash were more limited, she added.

Linda Keslar

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- COMPAGNIE LA HENIN
- CREDIT AGRICOLE
- CREDIT COMMERCIAL DE FRANCE (CCF)
- CREDIT DU NORD
- CREDIT LYONNAIS
- CREDIT NATIONAL
- DARTY
- DOCKS DE FRANCE
- DUMEX
- ELF AGRICULTURE
- ENC-ENTREPRISE MINIERE ET CHIMIQUE
- EPEDA-BERTRAND FAURE
- ESSILOR
- FIVES-LILLE
- FRANMATOME
- FRANCOISE HOECHST
- GRUPPE DES ASSURANCES NATIONALES (GAN)
- GTAM-ENTREPOSE
- IMETAL
- L'OREAL
- LOUIS VUITTON
- LYONNAISE DES EAUX
- MATRA
- MERIDIEN
- MERLIN GERIN
- MICHELIN
- MOYER-BUSINESS
- PECHINEY
- PEUGEOT S.A.
- POUET
- PRINTEMPS GROUP
- LA REDOUTE
- RHONE-POULENC
- ROUSSEL UCLAF
- SACLOR
- SANIT-GOBAIN
- SANOFI
- SCHNEIDER
- SEI GROUP
- SEITA
- SOCIETE GENERALE
- SOCIETE GENERALE D'ENTREPRISE-SCG
- SODEHO
- SOMMER ALLIBERT
- SPE BATHONNOLLES
- TELECOMANIQUE
- THOMSON-CSF
- TOTAL-COMPAGNIE FRANCAISE DES PETROLES
- USINOR
- VALLOUREC
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# Bankers Hone Bid for EC Leadership

Continued from page 7

extra 17 billion francs in provisions, raised a further 3.5 billion francs in equity this summer. Yet, those giant efforts may not be enough. Figures of the Organization for Economic Cooperation and Development still suggest a capital deficit of 1 percent to 1.5 percent on total assets or 75 billion francs more to be raised in equity.

An extreme case is the "green bank," the Caisse Nationale de Crédit Agricole, with less than \$1 billion in equity against total assets exceeding \$100 billion. About to be sold by the state to 94 regional cooperatives, its AAA credit rating is at stake for lack of adequate capital resources, and that could make a serious dent in profits.

The catch-22 for French bankers is to beef up their "resistance capacity" while building a large treasury chest to fund their European drive, which can only be tackled through mergers, acquisitions and equity alliances rather than by multiplying branches abroad.

Two outsider groups emerging from the Paribas empire of 1981, the London-based Pailles Group of Pierre Moussa and the Brussels stronghold of Fargesa led by Albert Fibres, are showing the way.

But to attract more capital, banks need to improve their profits. Poor productivity and low return on capital kept the French trailing way behind other European countries through the 1980s. Compared to British banks, return on assets were six times lower and productivity about half.

One reason lies in the rigid policies imposed since 1974 by the state on credit growth and market shares. The result was an above normal reliance on highly volatile and short-term-gear interbank funds, accounting for 50 percent of balance sheets against international norms of 10 percent to 20 percent.

This is why privatization had such meaning in France. Although the Banking Commission claims that it would never allow a bank to fail, the whole quality of massive interbank loans could suddenly be questioned abroad, espe-

cially when leverage proved to be so expensive.

Despite a strong comeback in 1986, when profits surged five times, Banque Worms threw away 203 million francs on its net interbank and money market dealings. Crédit Commercial de France (CCF) as well had to wipe out 1.6 billion francs while the huge Paribas, downgraded to an AA+ rating, had to cover 11 billion francs.

But things are changing, and interbank window-dressing is now giving way to tougher bottom-line criteria. This, in turn, is signaling a major shift in correspondent banking policies with a stress put on relationship profitability. Among the most advanced is certainly Crédit Lyonnais, using six different and integrated data bases to monitor relations with up to 3,000 institutions worldwide.

Less interbanking, a virtual hiring freeze, lower taxation (down to 45 percent) and booming capital gains lifted net profits by 40 percent last year for the top six commercial and investment banks.

What really saved banks from a crunch in corporate credits over the last two years was surging noninterest income, now exceeding 33 percent.

Short-term commercial and equipment loans fell by 6 percent last year as a result of a dramatic improvement in corporate self-funding. A survey conducted by SAFE, a top research house, shows that 49 industrial groups earned about 1.5 billion francs on their financial dealings, a gain of 30 percent over 1985. Thomson-CSF, the major military hardware group, earned more money out of finance (1.9 billion francs) than from its industrial activities.

Aside from going retail and squashing margins on corporate loans, the only alternative left was to start investing directly in bonds and shares or to manage third-party portfolios.

Since 1985, direct portfolios held by banks affiliated to the AFB more than tripled to 162 billion francs and exceeded all their shareholders' equity. A good case is the CCF, which is expected to post a group profit of 540 million francs in 1987, due largely to 250 million francs worth of capital gains.

# Chirac Government Pushes Privatization

Continued from page 7

came up with industrial companies rather than another bank," he said.

Another criticism is that Mr. Balladur, anxious to free capital to carry out other policies and obtain results well before next April's presidential election, in which Mr. Chirac is expected to run, has privatized too much, too quickly for a Bourse that has never rallied from the world's leading stock markets.

At times, analysts say, the extra stock flotations have played a part in an overall stagnation of French stocks.

In the spring, when prices slumped heavily on the Bourse, "there was a lot of money in play," one banker said. "Five companies were being privatized at the same

time and this took a lot of money out of the market. People were not interested in the normal stocks."

The government's aim, apart from restoring to the private sector companies what its Socialist predecessor had nationalized after taking power in 1981, is to invest the money in other sectors to boost the economy and reduce unemployment.

Since the summer vacations ended, the government has announced reductions in value-added tax on records, cassettes and automobiles and a 3 percent cut in income tax next year.

Although such measures have an obvious political motive in a pre-election period, they were welcomed in the industries concerned.

One flaw in the early privatizations was an absence of measures

to ensure that investors would receive manageable numbers of stocks.

To protect the small investor, all requests for stock were satisfied, meaning that Paribas, for example, issued four shares to each investor whereas the Banque des Travaux Publics issued only one.

In the case of BTP, the original share price of 130 francs (\$22) has only increased by 10 percent, meaning that, if stockholders sell, the gain is lost in bank commissions.

The privatized companies face the prospect of huge expenses as they send company results to each and every investor.

For the banks or brokers who hold the shares, it has meant that they are in charge of portfolios whose shares can literally be counted on the fingers of one hand.

To deal with this problem, the banks have proposed setting up SICAVs or mutual funds, to group all the privatized stock and give small investors their proportion of the new funds.

However, Mr. Balladur has said that after this month's privatization of the Compagnie Financière de Suez, the government would draw up legislation to establish "family accounts" that would group all shares held by members of one family, thus leaving the original stocks in investors' hands and preserving the new class of small investor that he hopes is here to stay.

The most damaging controversy surrounding privatization has Mr. Balladur himself as its target.

In planning the denationalization, the government provided for the creation of the hard cores of institutional investors who undertake to buy and hold a certain

percentage of stock for a fixed period to protect the companies involved from stock market raiders.

In most cases, around 20 percent of a company's capital has been sold to such investors. For Suez, it was 30 percent.

Last month, the Socialist Party published a "black book" accusing the government of favoring its cronies in big business when distributing stock, a practice that former Culture Minister Jack Lang dubbed "chiracisation."

Press reports have said that such privileged treatment has been meted out to the Lyonnaise des Eaux, whose chief executive is Herbert Monod, a former secretary-general of Mr. Chirac's Gaullist Rally for the Republic. Other names have included an associate of Mr. Balladur's brother-in-law and the godfather of one of Mr. Chirac's daughters.

Several bankers say they also perceive favoritism in the way shares were distributed to the big investors. "Lyonnaise des Eaux does seem to be a little overrepresented," one said.

In addition, supporters of former Prime Minister Raymond Barre, who is almost certain to be the Union for French Democracy's presidential candidate, have alleged that state-owned companies headed by Mr. Barre's sympathizers have often been passed over for privatization in favor of firms headed by known Gaullists.

Mr. Balladur, who has promised to reply in detail to the charges, has dismissed the issue as a political maneuver to discredit his policies ahead of the election.

JULLIAN NUNDY is on the staff of the International Herald Tribune.



Stock Market ■ Currency

# Sluggish Bourse Hopes for Better Days

'We're in a period of slow growth and we will remain there for a long time.'

By Jacques Neher

**P**ARIS — Although the stock market index may not show it, 1987 is shaping up as an interesting year for the Paris Bourse.

A wave of privatizations, much improved corporate earnings, lower inflation, recent innovations such as futures and options trading, and the promise of legislation that will break the trading monopoly held by 45 Paris brokers is breathing new life into France's equity markets, market observers say.

"I am convinced that the Paris Bourse has very beautiful days ahead of it," Jean-Claude Trichet, director of the French Treasury, told the French magazine *Le Point* recently.

Despite this outlook, the stock market itself has had a bumpy 1987, particularly when seen against the markets in London, Tokyo and



Edouard Balladur.

increased 38 percent; and New York's Dow-Jones index climbed 36 percent.

Since then, rising interest rates in the United States and the sudden plunge on Wall Street over the past two weeks has taken a further toll in Paris. By last Friday's close, the CAC registered 369.6 — about 7 percent below the start of the year.

Market observers blame the relatively large decline at the Paris Bourse on higher real interest rates and skepticism over the French economy. Though economists a year ago were projecting economic growth in 1987 of 2.5 percent or more, most have now downgraded those estimates to less than 1.5 percent. The outlook for 1988 is not much better.

"We're in a period of slow growth and we will remain there for a long time," predicted Gabriel François, senior vice president and chief economist of Banque Nationale de Paris.

Another explanation for the index's decline, one broker said, is that "the privatization issues have diverted money that might otherwise have gone into the other major stocks that have made up the index."

Indeed, the first 11 privatizations by the government since last December have siphoned 63.3 billion francs from the market, with 36.9 billion francs of that figure coming from French individuals and institutions, and the rest from foreign institutions, according to a study by London broker, James Capel & Co.

The privatizations, which have raised 51.6 billion francs for the government, have drawn an estimated 4 million individual investors into the French stock market for the first time, bringing total individual stock holders to some 6 million.

Wall Street over the first three quarters. The CAC general index, which soared 48.5 percent in 1986 — and 340 percent since 1983 — this year has gone mostly sideways.

The CAC finished September at 410, up only 3 percent from the start of 1987.

In the same period, London's FT Ordinary index rose 41 percent; Tokyo's Nikkei index

The privatization issues as a group had appreciated by about 20 percent through September, according to the study, but by the end of last week most of those gains had been wiped out. Nevertheless, the first company privatized, the glass and insulation group Saint-Gobain, was still up 38 percent over its initial offering price.

Looking ahead to 1988, a new round of privatizations, plus projections for robust corporate earnings, may provide a fresh surge of energy at the Bourse, observers say.

The minister of finance, economics and privatization, Edouard Balladur, said recently that the government expects to float at least 100 billion francs in additional state-owned stock over the next six months. Among the privatization issues, Mr. Balladur said, will be the giant insurance groups UAP and AGF.

Presidential elections next May could cause market jitters next spring, "but after that we could see one hell of a rally," said a London broker, noting that significant earnings improvements by French companies have not been reflected by increases in stock prices.

At the end of September, the price-earnings ratio for the top 30 companies on the Bourse was around 14, but prices were only 12 times 1988 projected earnings and 10 times 1989 projections, according to the James Capel study.

Meanwhile, a flood of new issues is washing over the Second Marché, a secondary market established in 1983 for smaller and medium-sized companies. Investors seeking new issues this fall have a wide choice — everything from little-known software developers like Société

## Privatized Companies: How Their Stocks Have Fared

(in French francs per share)

Stock	Launching Price	High 1987	Closing Oct. 16
B.T.P.	130	177	136.50
B.I.M.P.	155	200	190
C.C.F.	107	153	116.50
C.G.E.	290	347.10	300.20
Havas	500	524	520
Paribas	405	524	407
St. Gobain	310	524	502
Société Générale	427	437	412.10
Sogeval	125	174.50	130
TF 1	165	210	192

Concept to world-renowned perfume and high-fashion house Yves St. Laurent.

"I expect perhaps 50 new admissions on the Second Marché in Paris and the provinces in the last quarter," said Florence Hernandez, an official in the new-issues office of the Paris Bourse. That would bring to around 275 the number of companies quoted on the Second Marché, including issues traded on the smaller regional French markets in Bordeaux, Lille, Lyon, Marseille, Nancy and Nantes.

At the start of 1986 the Second Marché comprised 127 stocks with a combined capitalization of 58.5 billion francs. As of July 30, the market held 216 stocks with a combined capi-

talization of 148 billion francs — 10 percent of the total equity capital on the Paris Bourse.

Meanwhile, institutions have taken a liking to the MATIF futures market. Contract purchases on the 19-month-old MATIF have hit record levels, often surpassing London's futures market.

And though delayed three months by technical difficulties, trading on three stock options got off the ground this fall and market observers see it taking off in the year ahead.

JACQUES NEHER, a journalist based in Paris, is a regular contributor to the *International Herald Tribune's* financial pages.

# Vulnerable Franc Fears the Exchange Fallout of a Tottering Dollar

By Ken Ferris

**L**ONDON — The French franc's position at the top of the European Monetary System (EMS) has enabled Prime Minister Jacques Chirac's government to press ahead with its program to liberalize all exchange controls by 1992. But the gradual removal of the franc's protective shield has left the currency open to speculative attack and is likely to result in increased intervention and more volatile interest rates should Paris need to defend it against devaluation pressures.

The likelihood of a franc adjustment against its European Currency Unit (ECU) central rate is limited, given the approach of the presidential election next May. Nevertheless, the prospect of a further decline in the dollar raises the specter of a flight of capital into the Deutsche mark and a buildup of pressure for a general EMS realignment. That would probably include a 3 percent to 4 percent upward adjustment of the mark versus the ECU and an effective devaluation of the franc against the German currency.

The French unit needs to be realigned vis-à-vis the mark to compensate for the inflation

differential between the two countries since the last EMS reshuffle on Jan. 12 this year.

On that occasion, a dispute between Paris and Bonn over who should take responsibility for pressures on the weaker EMS currencies resulted in a 3 percent revaluation of the mark and Dutch guilder and a 2 percent upgrading of the Belgian/Luxembourg franc. The French franc, along with the other currencies in the Exchange Rate Mechanism (ERM), remained unchanged against their ECU central rates.

January's EMS realignment was the 11th since the first "shake" in 1979 and the first since the general reordering of parities in April 1986. It was immediately followed by speculation that there would be another adjustment within six months.

However, the success of February's Louvre accord, which was signed by the Group of Six major industrial countries — the United States, West Germany, Japan, Britain, France and Canada — in stabilizing the dollar has taken the pressure off fundamentally weak EMS currencies and enabled them to remain within their ECU divergence limits.

Indeed, despite intervention by the Bank of France to slow the mark's appreciation in mid-September, the strength of the French currency in the EMS has allowed Paris to slow the rise in

French interest rates in response to the recent tightening in German monetary policy. While the six-month mark Euro-deposit rate has risen three-quarters of a percentage point to 5 percent since early September, the six-month French franc Euro-deposit rate has edged up only a quarter of a percentage point to 9 percent.

The question that now looms large for the franc is how much longer central banks can hold the dollar steady in the face of the huge trade and budget imbalances in the United States and the comparable trade surpluses in West Germany and Japan. If the dollar does start to slide (the International Monetary Fund warns that a 15 percent to 20 percent decline may be needed), high interest rate EMS currencies, including the French franc, will face overwhelming selling pressure from speculators in anticipation of a realignment of the EMS.

In presenting his draft budget on Sept. 16, the French minister of finance, economy and privatization, Edouard Balladur, said inflation would be only 2 percentage points higher than in West Germany by the end of this year, and he targeted a differential of only 1 percentage point by the end of 1988.

However, the actual inflation rate (3.5 percent in August year-on-year) is currently run-

ning a full 1 percentage point above official forecasts, and many analysts believe the target of 2.5 percent by the end of next year is optimistic.

The continued erosion of French competitiveness is reflected in a deterioration in this year's balance of payments. The trade account is set to return to deficit this year after balancing in 1986: The 23.8 billion franc (\$3.96 billion) January-August trade shortfall contrasts sharply with the 900 million franc deficit in the same period of 1986. The national statistics institute, INSEE, expects a 20 billion franc full-year deficit compared to initial government hopes of a 1 billion franc surplus.

The problems faced by France in competing against its main European trading partners have encouraged the government to pursue a supply-side fiscal policy that involves cuts in corporate and income taxes and the budget deficit. September's budget provides for a 2 percentage point cut in corporate taxes to 43 percent and reductions in indirect taxes on business, while personal income tax is to be cut by 3 percent in most brackets.

The package is worth 31.8 billion francs, though the personal tax savings are to be reduced by the introduction of a series of levies

to help cover the 33.6 billion franc social security deficit.

Despite the range of tax reductions, the budget deficit is still expected to fall to 115 billion francs (2.1 percent of gross domestic product) in the 1988 fiscal year from this year's 129 billion francs due to buoyant tax receipts and proceeds from the accelerated privatization program.

Privatization receipts have already reached 52 billion francs this year, compared to the 30 billion originally forecast, and another 50 billion francs is expected next year.

Mr. Balladur has emphasized that France must continue to pursue its policy of simultaneously reducing taxes and the budget deficit until 1992, the date set by the European Community for the elimination of all internal trade barriers.

The challenge of competing in a unified European market means France should cut its budget shortfall by an annual 15 billion francs and further reduce corporate taxes and value-added tax (VAT) to sharpen the competitiveness of French companies, Mr. Balladur said.

These long-term plans to reinvigorate the economy aim to pave the way for further tax and exchange control liberalization ahead of the 1992 deadline under the so-called Delors

Plan. But, with political worries likely to increase as the presidential election approaches, the French authorities may wish they had retained some of the exchange restrictions already phased out if the franc is subjected to speculative pressure.

Mr. Balladur introduced a package of liberalizing measures in May, which means that French companies (but not citizens) are now allowed to open foreign currency accounts in France or abroad and to borrow freely in foreign currency or French francs. However, the package stopped short of relaxing the prohibition on French banks' franc lending overseas and on individuals opening foreign currency accounts. The government felt that the franc would be exposed to speculative pressure if those two main restrictions were relaxed.

The problem for Mr. Chirac's government is that, under the Delors Plan for the free movement of capital within the EC, the removal of these two remaining principal exchange controls must be achieved by the end of this year. If the authorities comply with that timetable, the franc will probably come under pressure on the foreign exchange markets.

KEN FERRIS is the editor of *Eureconomy Treasury Report*.

## FURTHER PROGRESS

CREDIT LYONNAIS GROUP consolidated interim results for the six months to 30 June 1987

(million FFR)

PROFIT AND LOSS	Half of 1986*	Six months to 30 June 1987	% Growth
Gross operating profit	13,219	14,123	+ 6.8
including net commissions	2,615	3,152	+ 20.5
Operating income	4,520	5,197	+ 15.0
Net operating provisions	3,105	3,362	+ 8.3
Net income (group share)	910	1,191	+30.7**

\* Comparison with one half of the 1986 full year figures is felt to be the most valid as, for the first time, the results for the six months to 30 June 1987 have been prepared using procedures similar to those employed at the year end.

\*\* Growth in net income, excluding exceptional items, is 16.5%. The exceptional items consist of capital gains realised on the disposal of certain investments less additional provisions for pensions and general risks and costs incurred in repurchasing high coupon debt.

BALANCE SHEET	30 June 1986	30 June 1987	% Growth
Gross customer loans	347,978	368,906	+ 6.0
Equity (including first half results)	15,803	19,264	+ 21.9
Perpetual subordinated debt	3,500	5,500	+ 57.1
Provisions	24,804	29,677	+ 19.6
- of which country risk provisions	10,580	13,435	+ 27.0
- percentage of country risk coverage	30.2%	38.4%	-
Equity + equity equivalent + provisions	12.68%	14.76%	-
Gross customer loans			

During the first six months of 1987, Credit Lyonnais has continued to make progress in its various fields of activity. In France, it has increased facilities both to individuals (up by 27%) and to businesses (up by 4.1%), has achieved a very pleasing increase of 7.7% in the level of French franc client deposits (excluding certificates of deposit), and has seen further expansion of its activities in the financial markets. Net commissions have increased by 18.3%. At the same time, the contribution to operating income of the overseas network has increased strongly, with a contrast between branch offices, whose results as a whole are down, and the major subsidiaries having the advantage of a substantial presence in their country of operation, which have in general shown strong growth in profits.

The first half of 1987 has also been notable for the various steps taken by Credit Lyonnais to reinforce its presence in the financial centres of London, New York, Tokyo and Frankfurt.



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# Herald Tribune

Published With The New York Times and The Washington Post

## Don't Panic, but Act Now

While it is not a disaster and it is not irreparable, the long fall of the stock market last week changes the atmosphere in which people deal with money. There is now a sense of vulnerability and fragility that did not exist before last Wednesday. It happened for reasons related to the twin deficits — the U.S. budget deficit and foreign trade deficit — and the fear that because of them, interest rates will go higher. Nothing dramatic had happened that far. It was a slow accumulation of small warnings over many months until, as often happens in speculative markets, one final piece of bad news, the figures for one month's trade deficit, suddenly reversed a consensus.

Comparisons with 1929 are inevitable. But remember that the market, from the high point Aug. 25 until now, has dropped less than half as far as it did from September to November 58 years ago. Much more important, keep in mind the fundamental differences in circumstances. A severe recession had started in August, 1929. Although the crash undoubtedly aggravated the recession, industrial production and incomes had been falling rapidly for two months before the stock market responded. But the biggest difference is that since then the American financial system has been substantially panic-proofed. The wildfire panics that were a regular part of economic life in America from the Civil War to the Depression have not recurred since then. Government policy cannot stop a slide in stock

prices. But it can prevent the slide from generating other kinds of damage such as sudden credit droughts and bank failures. The United States has absorbed the lessons of the Depression, and whatever happens next, it will not be the kind of contagious fear and misconceived public policy that led to the misery of the 1930s.

While America has now got itself into real economic trouble, it is a very different case from 1929. There is no recession. To the contrary, prosperity is running a bit too high and Americans are running up ominously large debts. The creditors, mainly European and Japanese, are becoming reluctant to keep lending. That is why interest rates are rising. The stock market is serving as an early warning system, picking up signs of stress that most of Washington has not felt yet.

There is one thing that the White House and Congress must do, and quickly. They must settle their quarrel over this year's budget and demonstrate to America's skeptical creditors abroad that they will keep skinning the deficit. There will not be another crash à la 1929. But if interest rates keep rising because foreigners have decided to stop lending, the United States is in for some harsh lessons on living within its means. A drop in the stock market would be only the beginning. The question is not whether Americans are smart enough to avoid the dangers of 1929, but whether they can foresee the very different dangers of 1989.

— THE WASHINGTON POST

## Yes to a Golden Basket

The U.S. Treasury secretary, James Baker, set pulses racing at the recent World Bank meetings by suggesting that international financial policies be guided in part by the price of a "basket" of commodities, including gold. It is not a bad idea.

Talking up gold may sound like a way to score political points among conservatives for George Bush, Mr. Baker's friend and favorite presidential candidate. But Mr. Baker's purpose is surely larger and the problems he addresses are deeper. There can be no magic formula for coordinating policies to stabilize prices and exchange rates. But Mr. Baker's proposed commodity inflation indicator could prove useful.

Under the gold standard that evolved in the 19th century, each participating nation's supply of money was backed by gold. When one country bought more goods abroad than it sold, gold would flow out in payment. The resulting squeeze on the domestic money supply would automatically correct the tendency toward profligacy.

And since the world's total amount of gold — and thus money — was limited, a gold standard provided an automatic check against inflation. Indeed, America's return to a precious metal standard after the Civil War precipitated a long, slow decline in prices.

A true gold standard would not be practical today. Gold may offer the illusion of stability but the amount available to back currencies could change rapidly. No government would make its money supply dependent on the two leading gold producers,

South Africa and the Soviet Union. And even if some governments were willing, there is probably no longer any way to link the supply of money to the amount of precious metal held in vaults. Businesses would create private substitutes.

The Baker option is far more modest. Basing the standard on a basket of many commodities would eliminate the problem of dependence on a single, arbitrarily designated commodity. No country, moreover, would be asked to increase or decrease its money supply automatically to maintain the buying power of its currency. Meanwhile, a broad international commodity price index might usefully signal the right direction for domestic monetary and fiscal policies — and offer an objective standard for international comparison.

The West Germans worry about inflation more than anyone. This fear keeps them from boosting economic growth now, when U.S. growth is slow and likely to get slower. Bonn argues that any inflation rate above 2 percent is unacceptable to German voters. But it might be more inclined to respond if the international commodity price index, measured in Deutsche marks, were falling.

It is difficult to construct a workable mix of commodities. But a highly visible index could at least serve as a talking point in ongoing negotiations over international policy coordination. Even small steps toward the recognition of economic interdependence would be welcome.

— THE NEW YORK TIMES

## Air Delays: Stop Meddling

What began in the House of Representatives as a sensible response to outrage over air travel delays has turned into meddling. Air travelers as well as airlines ought to hope for greater wisdom from the Senate.

The bill started as a commendable effort to make U.S. airlines disclose on-time records, numbers of complaints about lost baggage and other data to guide consumer choice. But members of the House, sensing rising popular anger over air service, began heaping on less meritorious provisions.

Some of these provisions were eliminated before the House finally passed the bill, but others made it through. These include, for example, setting capacity levels at the biggest airports, thus limiting departures and arrivals, and forcing airlines to give free tickets to passengers when their baggage is not delivered within certain time limits. Those are costly and clumsy intrusions.

Airport capacity varies with the time of day and could be better managed by manipulating fees for landing rights.

More to the point, airports can be expanded to meet increased traffic, and Congress is partly responsible for the failure to expand. Rather than set limits on airport use, the lawmakers could raise the user fees that feed the Aviation Trust Fund so that the aviation infrastructure can be expanded to pay itself. Congress also might move the trust fund off the budget and exempt it from cuts under the Gramm-Rudman-Hollings law.

The House bill may be a response to a problem that is already abating. The Federal Aviation Administration recently reported that delays in the July-September period were down 24 percent compared with the comparable 1986 period. All the more reason for Congress to resist the impulse to meddle.

— THE NEW YORK TIMES

## Other Comment

### That They Too Might Be Free

As the Western democracies have withdrawn from empire, the Communist powers have created new empires, turning independent peoples into colonial satellites. Two current events illustrate this change in roles. [Last week] the leaders of the countries that used to be colonies in the largest empire the world has ever seen gathered in Vancouver to berate the prime minister of the former imperial power for defying their wish to impose sanctions against South Africa. Thousands of miles away the Chinese government was reinforcing its military garrison in Tibet so that it would be in a stronger position to put down demonstrations by its colonial subjects. Western neocolonialism at its worst is nothing compared with the brutal occupation of today's Communist colonialism. Nor is there any sign that their empires will speedily go the way of the old colonialists'. The British, French, Dutch and other empires were disbanded because it became im-

possible to confer democratic rights at home while denying them abroad. That is not a problem for China or the Soviet Union. The sort of liberalizing steps being taken on the home front by Moscow and Beijing will only encourage their colonies to dream that one day they too might be free. The history of the first part of the next century will be largely the history of their struggles.

— The Sunday Times (London).

### The War Powers Threshold

The president and his advisers may gnash their teeth to admit it, but their mission in the Gulf surely has crossed the threshold set forth by the War Powers Act. The administration's protectiveness toward its policy-making prerogatives is understandable. [But it] should sincerely seek out the lawmakers' best counsel and cooperation. It has a case worth making in the Gulf, one that could be improved and refined in that dialogue.

— The Atlanta Constitution.

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## OPINION

# Together, We Can Avoid the Economic Abyss

By W. W. Rostow

lignations arising from prior loans.

Write-downs, rollovers, additional government and some private lending have helped. But they have not been enough to permit developing countries to fulfill their two essential functions in the world economy. One is to achieve the economic growth needed to bring social progress and to meet citizens' demands for democratic politics despite the strains of rapid population growth. The other is to provide an expanding market for sophisticated exports from industrialized nations.

There is a special dimension to the present problem. The United States is now a relatively more open and rapidly expanding market than Western Europe and Japan for exports from developing countries. Virtually all the major exporting nations in those regions have geared their currencies to the dollar. Thus, unlike the Japanese and Europeans, they have not felt the effects of the devaluation of the dollar from its 1985 peak.

But the U.S. trade deficit cannot be sustained indefinitely, so developing countries cannot count on earning large dollar surpluses to pull them out of their trade problems. This must be taken into account in designing a civilized exit from the present trade and capital transfer problem.

Here are the essential components of an international policy that would have a reasonable chance of success:

• Concerted measures should be taken to ease substantially the debt burden of the developing regions.

• Steps are necessary to increase the rate of growth in countries with chronic surpluses, notably Japan and West Germany, accompanied by a reduction of barriers to imports.

• Through bipartisan cooperation, the United States must balance the federal budget. And it must accelerate the application of new technologies and maintain wage restraint in the face of inflationary pressures likely to arise from the dollar's devaluation.

• Increased government and private lending to developing regions, including a larger role for the World

Bank and regional development banks, is needed. As America reduces its trade deficit and real interest rates are brought down, the resulting capital inflow to the United States should be diverted to developing regions.

The major economic powers have made progress in some of these areas, and so far they have kept under control the raw, sometimes vicious nationalistic impulses that helped push the world into the abyss in 1929 and thereafter. Memory of those years may again help us in the time ahead.

But the actions by Japan, West Germany, the United States and other countries fail to match the scale and urgency of the problem. The world's leaders risk earning themselves the characterization that Theodore Roosevelt made of the German chancellor's behavior in 1914: "He meant well feebly." Today, the consequences could be equally costly.

The writer, national security adviser to President Lyndon Johnson, is a professor of economics and history at the University of Texas at Austin. He contributed this to The New York Times.

# Why Tehran Risked a Bloody Nose

By Jim Hoagland

PARIS — The Iranian missile attack on a reflagged Kuwait tanker forces the Reagan administration to define its military commitment to the Gulf with a precision that Washington wanted to avoid. To smoke out the United States, the ayatollahs have chosen the road of escalation and the risk of a bloody nose inflicted on an American retaliation.

Why is Iran taking this route now, after reacting in low key to U.S. attacks on Iranian gunboats earlier this month? And why do the ayatollahs figure that American retaliation is an acceptable price to pay for the privilege of shooting up Kuwaiti shipping? The answers are unknowable for now, but the Iranian actions are plainly neither accidental nor irrational. Both international and domestic political factors make the escalation route logical, and sustainable, for them.

The greatest Iranian frustration has been an inability to play the two "Great Satans" against each other as the Soviet Union and the United States move toward a summit next week. Since its diplomacy has failed to divide Washington and Moscow, Tehran appears to be gambling on open military conflict to do that and perhaps bring Iran Soviet support.

In recent months, the Soviets have placated Tehran by making the right noises about joint economic projects during an exchange of visits. But they have not provided any real relief for Iran from the diplomatic campaign for a United Nations arms embargo against Iran and the escalating air and French-supplied warplanes.

Playing for time as it prepares for the renewed land offensive it plans against Iraq, Iran countered the U.S. drive in the Security Council for a arms embargo by giving indications for the first time this summer that it would consider a cease-fire.

The Soviets used this in successfully arguing for a delay in the arms embargo vote. But Moscow was careful to portray its move as part of a continuing cooperative effort with Washington inside the United Nations. The summit track continued to be the important one.

The missile attack Friday on one of the 11 Kuwaiti ships that now fly American flags occurred as Secretary of State George Shultz arrived in the Middle East on his way to Moscow for the final summit planning session. Indiscriminate American attacks on Iran now would put Moscow in a squeeze and could affect the summit. Escalation also brings pressure on the five West European countries that have sent military ships to the Gulf area.

For the ayatollahs, would such speculative gains be worth the humiliation and pain that an American retaliation would bring the nation? Because of the culture of martyrdom and the politics of turning persecution into strength that prevail in Iran today, they almost certainly would.

Consider the case of Hojatolislam Hashemi Rafsanjani, the speaker of the Iranian parliament and the man who arranged for Robert McFarlane to fly to Tehran and talk about hostages and arms. The operation blew up in their faces last November.

Six months later Mr. Rafsanjani's opening to France met the same fate. Then in July his attempts to work out a modus vivendi with Saudi Arabia collapsed in the Iranian-provoked bloodshed in Mecca. In any other country, Mr. Rafsanjani's political obituary would already be written. But in Iran, the strongest political leader today is Mr. Rafsanjani himself, now playing the role of persecuted radical. His rival, Mehdi Hashemi, who leaked the details of the McFarlane visit to a Lebanese magazine in an effort to discredit Mr. Rafsanjani, was executed three weeks ago.

Mr. Rafsanjani is taking credit for being able to use the American military presence in the Gulf to bring 200,000 to 300,000 recruits into the Iranian Army at a time when morale had been sagging. He and his faction might actually welcome American raids as an opportunity to burnish their radical credentials and once again show that the country has to rally around the ayatollahs.

While the situations are completely different, in this one aspect the Iranians resemble another dangerous adversary in America's recent past — the North Vietnamese, who also were able to transform punishment into unity and whose leaders used the image of themselves as the weak persecuted by the strong to their advantage. The United States has to shape its response to Friday's missile attack with such long-term dangers clearly in view.

The Washington Post.

## 100, 75 AND 50 YEARS AGO

### 1887: A War of Rumors

BERLIN — The Berlin air is heavy with military set predicted a war as an unavoidable certainty. Now the same people say that there will be no Franco-German war for five years. At the same time those standing near to the Chancellor, and who for the past six months have laughed at the various war scares and assured me they would amount to nothing, are now hinting at war and discussing its possibilities. From persons in the immediate entourage of Count Herbert Bismarck, I hear that the chances of a possible Franco-Russian alliance have recently been thoroughly discussed at the German Foreign Office.

### 1937: He Escaped Titanic

LONDON — Joseph Bruce Ismay, who faced severe criticism for his escape from the Titanic disaster in 1912, died today at the age of 74. At the time the great liner went down, Mr. Ismay was president of the International Mercantile Marine Company, controlling the White Star and other lines. He bore a large share of the criticism, both because of his position with the company and the fact that he escaped by leaping into the last lifeboat that left the sinking liner.

### 1912: Balkan Hostilities

PARIS — Hostilities have commenced between the Balkan States and Turkey, but it is hardly possible to form any clear idea of the military



## Still Life of a Great Communicator

By Haynes Johnson

WASHINGTON — For Ronald Reagan, the twilight days of an extraordinary presidency approach. He remains, of course, the immense war and peace powers granted to any American president.

Daily events in the Gulf demonstrate how great those powers remain. He continues to be influential in world affairs. A chance to achieve a significant arms control agreement with the Soviet Union exists. But in other areas his political powers are waning.

Nothing more dramatically underscores this than Mr. Reagan's role in the increasingly destructive effort to win confirmation for Robert Bork to the Supreme Court.

Future scholars of the Reagan era will look for a symbol of how the tide ran out on the Reagan era may point to last week, when the three major television networks, ABC, CBS and NBC, refused to broadcast a Reagan speech in which he attempted to rally public support for his nominee by strongly attacking critics of Judge Bork.

Here was the Great Communicator, the quintessential television president whose performances over the years enabled him to win battle after battle by carrying his case directly to the public, effectively struck mute in one of his most important political struggles. The networks had deemed his message unworthy of live coverage.

Even had his speech been broadcast, there is no reason to believe it would have made the slightest difference. The public seems to have tuned out Mr. Reagan, just as the Congress increasingly treats him as

irrelevant. Even many Republican right-wingers have distanced themselves from him of late. Predictably, they have fallen to fighting among themselves — and to attacking Mr. Reagan for what many of them view as his too-little, too-late, too-tired handling of the Bork defense.

Another incident last week contributed to the sense of Mr. Reagan's growing isolation. It was Labor Secretary William Brock's quiet departure from the cabinet. Mr. Brock, who initially served as the president's first trade representative, is one of the 17 original members of the Reagan cabinet.

Now only two of those are left: the still highly visible and forceful defense secretary, Caspar Weinberger, and the still nearly invisible housing secretary, Samuel Hickey.

The same dramatic turnover has occurred among the president's senior White House staff. His original team included the "troika" of Edwin Meese 3d, James Baker and Michael Deaver. All are now gone from the White House, as are many other members of that first staff, people like the political adviser Lyn Nofziger and the national security adviser Richard Allen. The problems of Mr. Deaver and Mr. Nofziger, whose criminal trials approach, convey another symbol for the Reagan years — the ethical impropriety affecting many who held high positions during his two terms.

Mr. Reagan stands virtually alone today. The inexorable political countdown has begun. In nine months, the political parties begin nominating their next presidential candidates. Twelve months from now, the next president will be elected. Then Mr. Reagan, too, will be gone. All that will be left is the reckoning on his presidency, and a complicated one it will be.

The Washington Post.

### The Time for Confrontation Is Over

EVEN with his Iran-contra baggage and the Senate in Democratic hands, President Reagan is far from being the traditional lame duck. He has shown his elan in foreign affairs, pursuing an aggressive policy in the Gulf and seeking an arms control accord with Moscow. Recently he struck a useful compromise on military aid for Saudi Arabia, a vital ally.

Some think he can even strike a bargain on the contras if he will settle for sending them nonmilitary supplies. He can certainly influence domestic legislation, notably on health insurance and the trade bill, if he is willing to dirty his hands in the hard work of negotiating compromises.

Mr. Reagan is neither the irrelevant president his opponents would like him to be nor the revered leader who six years ago pushed congressmen into accepting programs they were afraid to oppose. He is in the twilight of his presidency and can prevail only if he accepts his limitations.

— Lou Cannon in The Washington Post.

## Arms Control: It's Much Too Soon to Rest on Our Oars

By Edward L. Rowley

The writer is special adviser to President Reagan on arms control.

WASHINGTON — As Secretary of State George Shultz and his Soviet counterpart, Eduard Shevardnadze, prepare to meet this week, it is appropriate to take stock of what has been achieved in the arms control efforts and what remains ahead.

The two sides are close in agreement on intermediate-range nuclear forces, which for the first time would not simply limit but eliminate an entire class of nuclear weapons. The final

### The dangers now are Soviet pressure — and euphoria in the West.

agreement will be a significant political and diplomatic accomplishment.

But Americans must not let the tantalizing proximity of an accord blind them to the need to be tough-minded and realistic in three areas: making sure that sound verification proposals are built into any accord, renewing efforts to redress the imbalance in conventional forces, and pressing ahead toward President Reagan's goal of a major reduction in long-range strategic nuclear weapons.

The Soviets may exert enormous pressure to get America to dispense quickly with the remaining details of an INF treaty, particularly provisions of verification, in hopes that the U.S. side will compromise its standards to keep the "process" moving. The Soviets cannot be permitted to entertain any notion that vital verification requirements can be ignored.

The Soviets, of course, are only willing to cut a deal on INF now because America and its allies have

held steadfast to their determination to deploy INF missiles, because America has maintained a clear and firm stance with regard to third-country forces and because of allied determination not to give in to last-minute Soviet roadblocks.

Achievement of an INF agreement now would allow America to concentrate on both ends of the arms control spectrum. Efforts should be redoubled to redress the imbalance in conventional forces. And gaining substantial reductions in strategic arms remains the highest priority.

The conventional imbalance is an important source of military instability between East and West. There is no military or political reason for the huge buildup of Soviet and Warsaw Pact forces in Central Europe. The Soviets keep promising to reduce this imbalance, although it remains to be seen whether they are serious. No Soviet action would do more to convince a skeptical world of a change in Soviet strategic objectives than substantial reductions of these huge forces.

In the meantime, the North Atlantic Treaty Organization must continue to take steps to invigorate and improve its conventional defensive

capabilities. A real opportunity exists to cut deeply into offensive strategic nuclear arsenals. In their meetings last month, Mr. Shultz and Mr. Shevardnadze once again reaffirmed their commitment to 50 percent cuts in strategic weapons, which President Reagan has made his highest priority and General Secretary Mikhail Gorbachev has described as the "root problem" of arms control.

Despite this reaffirmation, the Soviets continue to link a prospective accord on strategic arms reductions to an agreement by the United States to check off its research into how to defend against ballistic missile attack. This linkage is unwarranted. Since both sides would gain from a reduction in strategic weapons, there is really no reason to hold such an agreement hostage to severe limits on the U.S. search for strategic defenses.

American negotiators do not have a clear view of the Soviet proposal on defensive systems. Mr. Shevardnadze has proposed alternatives, but the United States cannot accept any that would restrict it to a Strategic Defense Initiative program on Soviet terms, nor one that would subject U.S. research to limits more stringent than those contained in the anti-ballistic missile treaty of 1972, which does not even mention "research."

It must be made clear to the Soviets that the United States will not negotiate crippling limitations on its research into ballistic missile defenses in exchange for an agreement to reduce long-range weapons. America approaches the next critical epi-

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MONDAY, OCTOBER 19, 1987

EUROBONDS

Volatility Forces Banks To Be Cautious in Swaps

By CARL GEWIRTZ International Herald Tribune

PARIS — The debate on the Eurobond market is having a significant impact on the arcane business of swaps, where fixed-rate debts are transformed into floating-rate — or vice versa — or into another currency. Now that the bond market is dead and interest rates in all currency sectors are drifting up, arranging swaps has become riskier.

"Any time market volatility increases, the risk involved in running swap positions increases as well," said Martin Levion, who heads the swap desk at the London office of Salomon Brothers.

What's happening, major players agree, is that the swap market is reverting to the business practices used when it originated four years ago. Financial institutions are once again acting merely as brokers — matching two counterparties eager to swap liabilities.

Once active as swap counterparties, banks are now acting merely as brokers.

This replaces the most recent trend where banks were willing to act as market-makers. In effect, banks played the role of one counterparty, warehousing a position on their own books until a customer was found to buy it.

"We're clearly moving back toward brokering," said Michael Rulle, who heads the swap operation of Shearson Lehman Brothers in New York.

This is the result both of the increased volatility in financial markets, which makes it riskier for intermediaries to hold and hedge a position, and the emerging harmonization of banking regulations that will set standards on how much capital banks must use to back up their positions.

Taking a position in an interest-rate swap, banks expect they will be required to set aside from their capital base an amount equal to one-half percent of the principal amount of the position.

THE RULES expected on currency swaps are more onerous, requiring 5 percent of the principal amount, and activity in that sector has slowed markedly.

Denys Firth, who runs the London swap desk at Morgan Stanley, noted that "the currency swap market has effectively shut down beyond five years. Even up to five years" maturity, he added, "the bid-offered rates have widened," erasing the gains the swap was intended to create.

The liquidity in the largely U.S. dollar interest-rate swap market is still substantial, the experts say. The number and the dollar value of transactions remain high, albeit below last year's peaks.

But even in that market, it is increasingly difficult to find counterparties who want to lock in a fixed rate of interest. These days, with rates so volatile, both buyers and sellers of fixed-rate debt are shifting to money-market instruments.

Buyers do so out of fear that rates will go higher; they do not want to get locked in to long-term instruments. Debt issuers hope that rates will fall and long-term financing will become less expensive.

In fact, the latest estimate from the Bank of England is that the volume of Euro-commercial paper now outstanding is about \$50 billion, up from an estimated \$30 billion at the end of last year.

Increasingly this apparently is being sold to end-investors rather than bank intermediaries, as trading in Euro-CP is "quite small," said Lionel Price, a Bank official, at a financial markets seminar in Paris last week.

He noted that 95 percent of the Euro-CP facilities announced this year were arranged without any formal backup credit lines, which are designed to assure investors that the issuer will have the liquidity to repurchase the short-term debt.

The big news in the CP market last week was Salomon Brothers' decision to withdraw from the business. The bank was a dealer in some 50 Euro-CP programs.

Competitors say that to be profitable, a bank has to have access to at least 100 programs so that the volume of business is large enough to make up for the paper-thin profits.

Salomon's competitors told anyone who would listen that by walking away from a low-margin business that basically is a service to clients, Salomon risked losing its claim to handle other, more profitable, business.

Salomon officials, of course, said that was nonsense. Before the firm's competitors decide that riposte, however, they might ponder Mr. Price's comment at the Paris seminar.

Mr. Price referred to the shakeout in London that has seen Midland Bank PLC withdraw from equities trading, Lloyds Bank and Chemical Bank from Eurobond trading and Salomon from commercial paper.

He said the financial services industry appears to be following the pattern of the deregulated airlines and telecommunications industries: first attempting to cover the global market and then retreating to more profitable niches.

Currency Rates

Table with columns for Cross Rates, Other Dollar Values, and Forward Rates. Includes data for Amsterdam, London, New York, etc.

Changes in London, Tokyo and Zurich, (Times in other centers. New York rates of A.P.M. Commercial from 10:30 a.m. to 1:00 p.m. EST. To buy one pound, etc. To buy one dollar, etc. Units of 100; N.D.: not available; N.A.: not available.)

Last Week's Markets

Table with columns for Stock Indexes, Money Rates, and Forward Rates. Includes data for DJ Index, NYSE, etc.

Bank Aide Resigns In Peru

Move Follows State Takeovers

Ruiz

LIMA — Peru's bank superintendent has announced his resignation after the first week of efforts by state administrators to implement a bank nationalization law opposed by owners of private banks.

In a statement published by El Peruano, the official journal, on Saturday, the superintendent, Juan Klingenberg Lomellini, said he was resigning for personal reasons.

But the daily El Comercio, which covers financial news, said Mr. Klingenberg resigned because he disagreed with the way the nationalization measure was being implemented.

On Wednesday, police broke into Peru's largest private bank, Banco de Credito, whose directors had tried to resist expropriation. Police officers ushered in a state management team to run the bank.

The police also seized control of the second-largest private bank, Banco Wiese, and a private investment firm, Financiera de Credito.

The bank superintendent supervises all banking and insurance activities in Peru, ensuring that bank operations are within the law.

Mr. Klingenberg named the deputy superintendent of banks and insurance, Gerardo Malinovich Costa, to replace him.

The government of President Alan Garcia signed into law on Oct. 11 a bill to nationalize 10 private banks and 23 credit and insurance companies.

Mr. Garcia announced the takeovers on July 28. He said the move would free capital for loans to the rural needy and break up a monopoly of an economic elite.

On Saturday, a Labor Ministry statement ordered another defiant private bank, Banco Mercantil, to resume normal operations and fined it 100,000 intis (about \$6,300) for declaring a 15-day bank holiday without proper authorization.

Abel Salinas, energy minister and acting head of the government communication service, said the holiday was an illegal "example of rebellion to prevent the bank nationalization law taking effect."

Builder Blends U.S., French Styles

California Firm's Homes Are a Hit Around Paris

By Kurt A. Ruderman International Herald Tribune

PARIS — Eli Broad, chairman of Kaufman & Broad Inc., the largest single-family home builder in California, still remembers the day 20 years ago when on a trip to Europe he decided to expand his Los Angeles-based home building operations to France.

Mr. Broad, an avid art collector who is a connoisseur of French life, realized that the notion of a "village" of one-family homes would be a best-seller on the Continent. Those homes, well-landscaped and surrounded by open spaces, would combine American design and European decor, he decided.

In retrospect, his decision to concentrate his company's expansion in France, after limited investments to Belgium and West Germany, looks more than a little prescient. Since the company set up shop here with a fledgling development, Champ Fleury, in Voisins-le-Bretonneux southwest of Paris, its French operations have risen to account for more than 33 percent of Kaufman's total revenue of \$675 million and 33 percent of total net income that analysts estimate will exceed \$60 million this year.

The U.S. parent company, Kaufman & Broad Home Corp., which is traded on the New York Stock Exchange, reached a high for 1987 of \$21 a share and is now trading at around \$11. The French subsidiary, Kaufman & Broad-France, is not traded separately on the Paris Bourse.

From its tentative start in 1967, the company has built 21,711 houses in more than 10 communities throughout France. It is now France's third-largest home builder after Bouygues SA, Europe's largest construction company, and Bréguet.

"France has always had a growing need for what we call merchant housing," Mr. Broad recalled.

"People have a real desire to own their own homes," he said. "The suburbs of Paris were just starting to develop, along with an infrastructure to support it. The postwar market for village-type homes was emerging."

A single-family home in the attractive western suburbs, often much larger and with a garden, costs about half as much.

The spiraling cost of city living has boosted the success of Kaufman & Broad in France. Moreover, the prêt conventionné, a

government-regulated loan that makes it possible to get up to 90 percent mortgage financing at preferred rates, benefits both the buyer and the building industry. Today, 54 percent of French households own their dwellings.

Earnings of the management classes have increased, and they, like their counterparts in the United States and elsewhere in the European Community, are moving out of the cities.

Prohibitive prices in Paris are the main cause of this exodus. "No one can live in Paris anymore," said Guy Nafilyan, president of Kaufman & Broad-France. "The prices are too high."

For a family of four, an apartment of 100 square meters (1,075 square feet) in one of the better arrondissements of Paris costs from 2.5 million to 3 million francs (about \$416,000 to \$500,000).

"People have a real desire to own their own homes," he said. "The suburbs of Paris were just starting to develop, along with an infrastructure to support it. The postwar market for village-type homes was emerging."

The Express investigation said the technology transfer plan began with a French export company, Sogexport, a division of Société Générale, which at the time was owned by the French government. A Sogexport division, Scientific Accessories, run by Aimé Richardt, worked with a Silicon Valley company, Quad Group, to buy technology from various American companies. Mr. Richardt and four others are on trial in Luxembourg for illegally shipping the materials.

Christian Amalric, president of Sogexport, told L'Express that "we had obtained French authorization to export this machine, which, at this time, was not inscribed on the Cocom list and freely left the United States." He was referring to a list of sensitive materials drafted by 16 nations who are members of the Coordinating Committee on Multilateral Export Controls, known as Cocom. U.S. officials insisted that machinery of this sophistication was certainly on the Cocom list.

U.S. officials in Europe Susan F. Rasky of The New York Times reported from Washington:

A team of U.S. export control officials will begin a tour of 14 European capitals this week, hoping to convince the Western allies to beef up their systems for controlling exports to the Soviet bloc, the State Department said Friday.

In exchange, the United States will hold out the possibility of eventually eliminating export license requirements for "dual use goods" and technology shipped among the 16 Cocom nations. "Dual use" refers to items that are commercially made and traded, but could have military application for the Soviet Union or its allies.

"We're talking about cutting the licensing requirements as soon as possible," said Allan Wendt, the State Department's senior representative for strategic technology policy.



'No one can live in Paris anymore. The prices are too high.' Guy Nafilyan, President of Kaufman & Broad-France

Not that the company's introduction to France was easy. There were investment and zoning laws to overcome, as well as the hurdles of mortgage financing.

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Plan to Export Soviet-VW Cars Assailed in U.S.

By Clyde H. Farnsworth New York Times Service

WASHINGTON — A plan by the Soviet Union to export Moskvich cars with Volkswagen engines to the United States is drawing criticism from the Reagan administration.

Under the project, being negotiated by Volkswagen AG and Volga Automotive Works of the Soviet Union, the West German car company would build a \$1 billion engine plant in Moscow, producing 250,000 to 300,000 1.8 liter engines a year.

The engines would power a special export model of the Moskvich 2141, a front-wheel-drive hatchback that the Soviet Union expects to sell in the United States by 1990. The Soviets would finance the plant with export sales.

The move is the latest of a series by the Soviets to do more business with the United States and tap Western technology.

Professor Joseph S. Berliner of Brandeis University, in Massachusetts, said that what the Soviet leader, Mikhail S. Gorbachev, "would ideally like to accomplish before he steps down from office a decade or two from now is an economy that produces industrial products of such quality that they could compete with those of any other nation."

A Reagan administration official who asked not to be identified objected that the Soviet-Volkswagen transaction was structured in such a way that "the American market ends up financing a German export to the Soviet Union. We get nothing out of it."

An official at another department, who also asked not to be identified, said, "The United States doesn't want to finance anyone's exports, certainly not the Germans."

West Germany has been running merchandise trade surpluses with the United States second only to those of Japan.

In addition, Bonn and Washington are in conflict over domestic energy issues that have contributed to rising U.S. interest rates and disquiet on Wall Street.

Although the Volkswagen project could swell U.S. trade deficits, there is little Washington can do to block it, officials acknowledged.

Because of human rights violations, Moscow does not qualify for the most-favored-nation tariffs that the United States applies to the imports of most other countries. But analysts said the higher tariff is unlikely to be much of a deterrent.

Soviet cars would be liable for 10 percent duty, against 2 percent for Japanese or West German cars, a relatively narrow spread.

In an earlier attempt by Moscow to sell Lada cars in the United States, the Environmental Protection Agency refused to clear the car's engine.

Automotive analysts said the choice of Volkswagen as the engine-maker was intended to lessen environmental objections.

The choice also underscores fast improving commercial ties between the Soviet Union and West Germany as their political relationship has warmed up.

A Volkswagen spokesman in Detroit, Thomas E. McDonald, said the company had conducted negotiations over the engine plant last year but that these were broken off.

In recent weeks, he said, negotiations had resumed, but he declined to provide further details.

An official at the Soviet Embassy in Washington also declined to comment.

Disclosure of U.S. anxiety over the Soviet-Volkswagen negotiations follows reports earlier this month of another major Soviet trade initiative that has rankled the administration and some members of Congress.

Moscow has offered to launch communication satellites of such companies as General Motors Corp. and General Electric Co. at a time when the U.S. space program is without rockets to send commercial satellites into space.

The two companies have asked the U.S. government to drop its ban on launches by Soviet rockets.

American officials say they object because of fears that Western technological secrets could fall into Soviet hands. But some corporate officials said they suspect that another consideration is to maintain the monopoly of the National

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Minolta Camera Co., Ltd. advertisement for convertible bonds due 1997. Includes list of participating banks and financial institutions.



Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London, Tel: 01-623-1277. Prices may vary according to market conditions and other factors.

Dollar Straights

Table of Dollar Straights with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Australia, Canada, Denmark, France, Japan, and the UK.

United States

Table of United States bonds with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for AT & T, Amstar, Amgen, and various government bonds.

DM Straights

Table of DM Straights with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Air Canada, Amstar, Amgen, and various international issuers.

DM Zero Coupons

Table of DM Zero Coupons with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Amstar, Amgen, and various international issuers.

ECU Straights

Table of ECU Straights with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Amstar, Amgen, and various international issuers.

Supranational

Table of Supranational bonds with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Council of Europe, ECSC, and various international organizations.

Western Europe (Other)

Table of Western Europe (Other) bonds with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Amstar, Amgen, and various international issuers.

Dollar Zero Coupons

Table of Dollar Zero Coupons with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Amstar, Amgen, and various international issuers.

Supranational

Table of Supranational bonds with columns for Issuer, Con, Mat Price, Yld, and Trv. Includes entries for Council of Europe, ECSC, and various international organizations.

Chicago Exchange Options

Table of Chicago Exchange Options with columns for Option & price, Calls, and Puts. Includes entries for Amstar, Amgen, and various international issuers.

Option & price

Table of Option & price with columns for Option & price, Calls, and Puts. Includes entries for Amstar, Amgen, and various international issuers.

Option & price

Table of Option & price with columns for Option & price, Calls, and Puts. Includes entries for Amstar, Amgen, and various international issuers.

Euromarts At a Glance. Table of Eurobond Yields and Weekly Sales. Includes columns for Issuer, Con, Mat Price, Yld, and Trv.

Wall Street Review. NYSE Most Actives, AMEX Most Actives, NYSE Sales, AMEX Sales, NYSE Diaries, AMEX Diaries. Includes various market data and indices.

WestLB advertisement. Fixed Income and Equities Trading - for dealing prices call. Includes contact information for Düsseldorf, London, Luxembourg, and Hong Kong.

INTERNATIONAL POSITIONS. You will find below a listing of job positions published last Thursday under the rubric International Positions. Includes a table with columns for TITLE, SALARY, and EMPLOYER.



New International Bond Issues

Compiled by Laurence Desvillettes

Table of bond issues with columns for Issuer, Amount (millions), Mat., Coup. %, Price and week, Terms. Includes sections for Floating Rate Notes, Fixed-Coupon, and Equity-Linked.

U.S. Stocks Have Yet to Crest, Elliott Wave Theorist Says

Robert R. Prechter has earned a reputation as one of the most accurate stock market forecasters in the United States, having correctly predicted almost every major turn in stock prices since the bull market began in August 1982.

Its recent move just means I'm doing my job correctly.

Q. The stock market looks shaky to many investors. Are the big price declines that we...

MONDAY Q&A

Q. Can you define the Elliott wave theory? A. The wave principle is simply a detailed description of price and volume patterns that occur in the market.

Q. Are you saying that past is prologue? A. Yes, the basis of market movements is mood changes, and the fundamental nature of crowds doesn't change.

Q. There are those on Wall Street who say you share some responsibility for the market's recent problems because of your recent bearish views. Do you believe this claim is justified?

A. No. The market is much bigger than any one analyst and will go wherever it pleases regardless of me or anyone else's recommendations.

Q. You had been bullish until earlier this month when you warned your subscribers...

that the failure of the Dow to break through 2,640 meant that it would retreat to around 2,300. What made you change your mind? A. It wasn't just one thing. There are four indicators that are pretty good predictors: price patterns, which under the wave principle take various forms and shapes; time cycles that occur with some regularity between the tops and bottoms of markets; market movements, namely the speed and breadth of price movements, and investor psychology.

Q. Since market psychology is so important to your forecasting method, what can you say about the market's current mood and what does this mean for stock prices? A. The market was complacent and optimistic coming into the Oct. 2 peak. But the big declines, finally in the past couple of days, have begun to instill some fear among investors.

Q. Does this mean this latest correction is just about over? A. Let's say I believe most of the price damage is over. Markets rarely turn on a dime and go straight up. They usually spend some time at the lows. Time may have to pass before another rally. This is an interim period that is likely to end sometime in the fourth quarter.

Q. What about after 1988? In the past you have warned of a devastating stock market correction and an economic depression. Do you still believe this? A. After 1988, I think we'll see the biggest market decline in 80 years. Usually depressions follow. But that's just one person's view. No one has a road map to the future. Being a market analyst is a lot like betting in baseball; it's the percentage of his you get that make you good.

Q. I gather that you may be changing your opinion about the stock market. Do you believe you will be telling your subscribers in the November issue of your newsletter to get back into the market? A. Well, let's just say I'm not prohibited from sending out a bulletin before November.

Q. Once the market is over this rough period, what is your long-term forecast? A. I'm still very bullish looking out over the next 14 months. I believe the Dow could reach 3,600 to 3,700 before this bull market is over. I've been saying this will happen before the end of 1988.

Q. What about after 1988? In the past you have warned of a devastating stock market correction and an economic depression. Do you still believe this? A. After 1988, I think we'll see the biggest market decline in 80 years. Usually depressions follow. But that's just one person's view. No one has a road map to the future. Being a market analyst is a lot like betting in baseball; it's the percentage of his you get that make you good.

MARKETS: Investors Take Their Own Steps to Reduce U.S. Trade Deficit U.S. Taking Part In Argentina Loan

(Continued from Page 1)

willing to intervene heavily to support the dollar. Both central banks are already trying to restrain expansion in domestic money supply, partly the result of earlier currency intervention.

Thus, dealers anticipate that speculators this week will turn their attention to the foreign exchange market. The comment from U.S. Treasury Secretary James A. Baker 3d last week that there could possibly be some lowering of the dollar's trading range is expected to be tested in the currency markets this week.

The question then is whether the central banks simply widen the target range as hinted by Mr. Baker, or whether the market forces an admission that the agreement to stabilize currencies really lacks substance.

At stake is whether the dollar is gently managed lower or whether it heads for a "hard landing" — the disorderly decline triggering a world recession that policy makers have been seeking to avoid since the dollar began its decline in 1985.

Mr. de Vries does not dispute claims that it may make little difference whether the United States exports goods and services to balance its trade or whether it finances its trade deficit by selling stocks,

Largest Corrections of Postwar Period

Following are the 10 biggest percent corrections of the Dow Jones Industrial average since the end of World War II.

Table with columns: Date, Beginning Price, End Price, Percent Change. Lists major market corrections from 1929 to 1973.

\*Includes corrections in which the average dropped more than 10 percent and then rose as much or more.

What counts, he said, in an interview, is that financial markets — which one way or another must finance the deficit — have seized on the trade imbalance as the fountainhead of instability and are demanding an adjustment. Since politicians are not providing that, the market is — by pushing up interest rates and thereby slowing the domestic demand that is helping create the trade imbalance.

At this point, Mr. de Vries said, "we need an increase in the discount rate not to defend the dollar but to curb domestic demand. The market wants a correction in the trade deficit" and by driving rates higher it "is forcing down domestic demand."

Washington

WASHINGTON — The Treasury Department has announced that the United States will take part in providing a \$500 million short-term loan to Argentina.

A spokesman for the Treasury said Friday that the U.S. share of the loan was between \$200 million and \$250 million.

Last Wednesday, Argentina froze wages and prices as part of its effort to control inflation and promote expansion. (AP/Reuters)

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Last Wednesday, Argentina froze wages and prices as part of its effort to control inflation and promote expansion. (AP/Reuters)

Indigo logo and contact information for Indigo, a licensed broker, located at Avenida Palma de Mallorca 43, Tel Aviv, Israel.

STOCKS: Baker Plays Down Plunge and Kaufman Predicts a 'Steadying'

(Continued from Page 1)

York Times story on Sunday that "spotted a senior administration official as saying the United States is allowing the dollar to decline against the Deutsche mark."

The Treasury secretary insisted that the administration would not change its exchange-rate policy without first making sure at least that we notified and discussed it with our trading partners," as required by the Louvre agreement on

currency stability reached in February among Western industrial powers.

Then he added, in words that appeared aimed at the governments in Bonn and Tokyo: "On the other hand, we will not sit back in this country and watch surplus countries jack up their interest rates and squeeze growth worldwide on the expectation that the United States somehow will follow by raising its interest rates."

Mr. Baker made similar comments Saturday in an interview on Cable News Network. He had noted that the rises in German interest rates could slow the economies of both countries and that they indirectly have been contributing to the falling stock prices on Wall Street.

Mr. Baker, in both interviews, chose his words with great caution and did not specifically mention the dollar.

analysts and another senior administration official, who declined to be named, said Mr. Baker's remarks on Saturday meant that the administration and the Federal Reserve Board would not interfere if market pressures start pushing the dollar down somewhat against the mark.

He also said a decline of the dollar against the mark could be expected to mean a decline against many other currencies, too.

In Sunday trading in the Middle East, the dollar fell about 1.5 pfennings against the mark following the New York Times report, foreign exchange dealers said. In late afternoon the dollar was quoted at 1.7835 DM, after closing in New York on Friday at 1.7980 DM.

Mr. Baker said again that the administration will not accept tax increases Congress is proposing to reduce the federal budget deficit. "I think that the writing of these tax packages had a major effect in what's happened to the stock market over the past three or four days," he said, noting that corporate taxes would rise.

France Tries To Reassure Shareholders

Agence France-Press

PARIS — The French government has appealed to novice shareholders to retain their stocks and allow the government's huge privatization program to continue, despite plummeting share prices in Paris last week.

On the Paris Bourse, the widely watched CAC index dropped about 8 percent last week, to 369.6 from 402.9 the previous Friday.

The drop comes with the program of selling off 65 state-owned industrial and financial companies not yet half completed. The plan is the cornerstone of the conservative government's free-market policies.

Shares in recently privatized companies fell sharply. Some, such as Banque Paribas, dropped to their original selling price.

Finance Minister Edouard Balladur called Saturday on "the millions of French who have purchased stocks in privatized companies" not to be swayed by the price falls, noting they had invested for the longer term.

Treasury Bonds

Table of Treasury Bonds with columns for Maturity, Bid, Ask, Yield, and Volume. Lists various bond maturities from 3.78 to 15.21.

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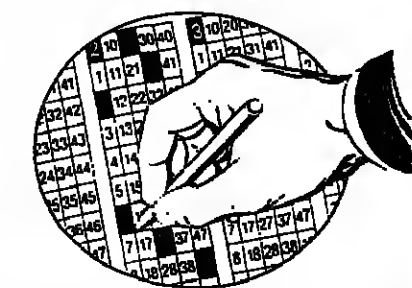
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CANADIAN OVERSEAS MARKETING ORDER FORM table with columns for game board numbers (1-49) and checkboxes for game selection.

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Form fields for NAME, ADDRESS/PO. BOX, CITY, COUNTRY, Cheque/Bank Draft, CREDIT CARD NUMBER, and SIGNATURE.

HOMES: California Firm Marries French, U.S. Styles

(Continued from first finance page)

Continued in Ile-de-France, where it now centers all its operations, is closely linked to the RER lines, the regional express train network. Ile-de-France comprises Paris and surrounding districts.

"Customers who accepted to live far from Paris 10-15 years ago," Mr. Nafilyan said, "today want individual homes a bit closer to Paris, even if population is denser and parks are smaller."

In 1979, Kaufman began selling individual homes to institutional investors, mainly insurance companies, that had traditionally bought apartment houses in the center of Paris.

The first was insurance company La Concordie, which bought into a village of individual homes in Epone next to Mantes, west of Paris. Since 1979, 30 percent of indi-

vidual home sales have been to insurance companies.

Between 1984 and 1986 Kaufman & Broad-France's annual earnings rose from \$3.8 million to \$16.8 million. During this period, the company bought Bati-Service, a builder of entry-level homes, and began constructing apartments, offices and senior citizens homes.

To run these operations, it created a new division, Kaufman & Broad Development, which is headed by Henri Car, formerly vice president of Bouygues' real estate arm.

Financial risk is low in these ventures since Kaufman purchases land on option, and sells the office or apartment buildings to investors before beginning construction.

Kaufman is currently building 113,000 square meters of office space for investors.

Upscale home building is still Kaufman's main activity, with profit of \$8.3 million in 1986 on revenue of \$90 million. Bati-Service reported profit of \$5 million on \$66 million revenue; office and apartment building produced profit of \$2.8 million on revenue of \$15 million, and retirement homes, \$700,000 profit on revenue of \$3 million.

U.S. marketing strategy in France's construction industry is now being successfully adapted by local companies, who have never had the backing or financial resources of a California-based parent company.

"I think marketing is becoming universal," Mr. Broad said. "Perhaps Americans had an advantage 20 years ago. There are fewer differences today."

SOVIET: U.S. Assails Plan to Export VW-Powered Cars

(Continued from first finance page)

Aerodynamics and Space Administration, the U.S. space agency. Volkswagen is only one of more than 100 Western companies with whom the Soviets are discussing joint ventures in efforts to increase efficiency of the Soviet economy.

A half-dozen such ventures have already been concluded, including one with Pizza Hut, a subsidiary of PepsiCo, which would operate four pizza establishments in Moscow.

The Soviets have also concluded joint ventures with Babcock PLC of Britain to manufacture industrial refrigeration equipment, financed in part by an Italian banking syndicate; Sandvik AB, a Swedish company to produce tung-

sten carbide cutting tools in Estonia; and Finnair to renovate the Berlin hotel in Moscow.

"The Soviets are using joint ventures as paragon, in effect saying, look what foreigners together with the Soviet people can do — why can't we do it ourselves," said John I. Huns, an international lawyer who advises U.S. multinational companies on relations with the Soviets.

"The ultimate objective is to make Soviet manufactured goods more saleable in the West," he said. One of the Soviet Union's immediate objectives, American officials said, is to obtain most-favored-nation status.

The U.S. government estimates that Soviet exports to the United States would grow by a relatively modest \$20 million to \$100 million annually if it were granted such status, according to Franklin J. Vargo, deputy assistant secretary of commerce for Europe.

BNP to Buy Control of U.K. Broker

Compiled by Our Staff From Dispatches

PARIS — Banque Nationale de Paris said Saturday that it was taking a majority stake in London-based securities broker Ark Securities, to strengthen its global equities business.

Ark, which already had a working relationship with the French government-owned bank, was seeking to reinforce its capital ahead of its planned listing on the London Stock Exchange, BNP said. It did not give an amount for the transaction.

Eric Lorisignol, a BNP director who is to be chairman of Ark, said the purchase would develop BNP's European equities expertise. The London firm will also benefit from BNP's large international financial network and its British branches, BNP PLC and BNP Capital Markets.

BNP recently announced that it would take a majority stake in one of the smaller Paris brokers, du Bouzet, taking advantage of planned legislation to open brokers' capital to outsiders.

It also has taken a 75 percent stake in ABS White & Co., an Australian securities house based in Sydney, and has applied to open a securities house in Tokyo.

(Reuters, AFP)







NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Main table containing NASDAQ National Market data, including columns for Sales, High, Low, Close, and various stock symbols like AMER, AMERX, AMERZ, etc.

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SPORTS

Twins Open Series With 10-1 Thrashing of Cardinals

By Michael Martinez  
New York Times Service



Dan Gladden, left, showing a glad hand after his bases-loaded homer put the Twins ahead, 7-1, in the fourth inning.

MINNEAPOLIS — There were banners hanging everywhere Saturday night, and the white "homer" banners swirling in the air and a din in every corner of the Metrodome. The Minnesota Twins seemed to thrive on it. They have been maligned because of their inferior record and ridiculed because they play baseball indoors, but now they have a one-game lead in the 84th World Series.

The Twins combined power from two unlikely sources and superb pitching from Frank Viola, as they routed the St. Louis Cardinals, 10-1, in the opening game of the four-of-seven-game Series.

Dan Gladden, an outfielder known more for his speed on the bases than the left of his bat, hit the first Series grand-slam home run in 17 years and drove in six runs. Viola, who was supposed to be the best man at his brother's wedding in New York after the Cardinals five hits through eight innings.

His bases-loaded homer was the 13th in Series history, and it came on a night when the Twins had 6 walks and 11 hits, blasting the ball from one corner of the echoing plastic-carpeted Metrodome to another.

"No, I don't think it was the crowd," Whiskey Herzog, the Cardinal manager, said of the roaring fans. "It's loud, I'll say that. I don't want to blame the crowd for losing the ballgame. They're just a good old-fashioned tail-kicking, that's all."

Viola had a count of three balls on just one batter, Tom Lawless in the fifth, and struck him out. He threw 100 pitches, did not walk a batter and struck out five before Keith Atherton worked a scoreless ninth.

The Twins, who rose from the role of underdog to win the American League championship series in five games over Detroit, scored seven runs in the fourth inning and two more in the fifth on Steve Lombardozzi's two-run homer of Bob Forsch. They knocked out the Cardinals' left-handed starter, Joe Magrane, who faced five batters in the fourth without getting an out.

And then Viola breezed, perhaps inspired by the banner that read, "Frankie Sweet Music Viola" hanging over his shoulder in right field.

"I felt totally in control of the game, but I didn't let any letdown happen," said Viola, who has had 10 victories without a defeat at the Metrodome since May 22. "I still had to pitch my game. I pretended it was 0-0 and approached it that way."

But it was not 0-0. It was 7-1 in the fourth, 9-1 in the fifth and, finally, 10-1 in the seventh.

The Cardinals scored a run on a bloop double by Jim Lindeman in the second and a run-scoring groundout by Tony Pena. But they were never able to unload against Viola, who retired 16 of 18 batters after Lindeman's hit.

The Cardinals, who won their playoff

against San Francisco in seven games, even had some predictable trouble with the dome. Gary Gaetti was credited with a double at the end of the fourth when neither Vince Coleman, the left fielder, nor Willie McGee, the center fielder, spotted the ball against the grayish-white ceiling.

"It's tough here," said Ozzie Smith, the Cardinals' shortstop.

WORLD SERIES: GAME 1

St. Louis shortstop. "Any time you come here and visit, whether it's 1 or 2 times or 9 or 10, you can't get used to it. In that way, it's definitely an advantage to them.

"They did everything right," he added with some resignation. "We couldn't muster anything."

The refrain was familiar. The Twins had the best record in either league, going 56-25 under their big top, although their overall record of 85-77 is the second-worst ever for a World Series participant. Only the 1973 New York Mets, who trudged through the season with a 82-79 record, had fewer victories.

But this is a team that plays precisely as its manager, Tom Kelly, says it does. "We do the best we can," he has said all but daily since the postseason began, and Saturday night their best effort crushed the Cardinals.

Magrane, only the eighth rookie ever to start a World Series opener, appeared

bothered early by his lack of control, walking two batters in the second inning and one more in the third. He made one straight pickoff throw to first with Gladden on base in the third, then did not throw there again, and Gladden stole second easily. But he did not advance any farther.

Magrane was surviving, but he could not make it through the fourth. There were three consecutive singles, by Gary Gaetti, Don Baylor and Tom Brunansky, to lead the bases, then a two-run single by Kent Hrbek, the only left-handed batter in the Minnesota lineup.

Herzog did not hesitate to pull Magrane after he walked Lombardozzi, the No. 8 hitter in the order, on five pitches. Herzog called for the 37-year-old Forsch, but the thunder didn't stop.

Tim Laudner delivered a single that made it 3-1, and then Gladden crushed a 1-2 breaking ball 380 feet (112 meters) over the barrier in left, turning it into a 7-1 game.

The last World Series grand slam came in 1970, when Dave McNally, the Baltimore pitcher, hit one against Cincinnati.

Gladden enjoyed an exceptional playoff, hitting .350 and batting in five runs, but he was overshadowed by Gaetti and Brunansky, who combined for four homers and 14 RBIs. And in the Minnesota clubhouse, Gladden is known more for his practical jokes than his leadership.

"He's a little goofy," Kelly said when someone asked about Gladden's supposed toughness.

Lombardozzi did not differ. "Goofy," the second baseman said. "But we need a little of that."

Gladden, who came out for a curtain call from the hanky-waving crowd of 55,171, disputed the tag but offered a little humor in the postgame conference. How did he feel as he ran the bases? "I was excited," he said. "I tried to hold my emotions, I thought about putting my flap down like Jeffrey Leonard, but then I decided against it."

He was referring, of course, to the stiff-armed home run trot by the San Francisco outfielder in the National League playoffs. But Gladden is no power hitter, having hit 24 homers in four seasons and only one previous grand slam.

"He got a little embarrassed one time in Detroit when he struck out with the bases loaded on three bad breaking balls," Kelly said. "He felt bad, but he went on and got some big hits."

Lombardozzi followed a one-out walk to Hrbek with a homer to left against Forsch, and the game was all but over.

Viola kept the top two Cardinal bases stealers, Coleman and Smith, off the bases and permitted only one runner as far as second base after St. Louis scored its run. "This is a confidence-builder," Viola said. "We sure as heck got our fans fired up."

Tyson Hammers Biggs, Wins in Seventh

By William Gildea  
Washington Post Service

ATLANTIC CITY, N.J. — Mike Tyson made Tyrell Biggs pay, and play plenty.

Tyson, undisputed heavyweight champion, scored a technical knockout over Biggs on Friday night with a devastating left hook at 2:59 of the seventh round of the title bout.

The fight was stopped without a count as Tyson unconsciously deposited the previously unbeaten challenger in a heap in his own corner.

Seconds earlier, Tyson, who had won 28 of 33 professional bouts by knockout, sent Biggs (15-1) through the ropes with a left that signaled the end was near. Biggs, a 10-1 underdog, was never a threat to Tyson during the scheduled 15-round, Tyson's first defense of his unified crown, which includes the World Boxing Council, World Boxing Association and International Boxing Federation titles.

"I could have knocked him out in the third round," said Tyson. "I wanted to do it very slowly. I wanted him to remember it for a long time."

What irritated Tyson and gave him extra incentive were predic-

tions of victory by Biggs and his manager, Lou Duva, earlier in the week. Tyson stormed around the ring after Biggs, who was virtually helpless in the last three rounds, bloodied from a cut about his left eye.

"He was going to lose and he was going to get knocked out," Tyson said later. "He talked so much. He didn't show any respect or any class. So I was going to make him pay."

Tyson said he knew he had Biggs beaten in the second round because he said his body shots made Biggs "sound like a woman screaming."

Biggs, the WBA's top-ranked contender, absorbed tremendous punishment, landing few punches from the fifth round on and taking thunderous lefts and rights from the relentless Tyson.

A near-capacity crowd of 12,000 in Convention Hall realized early that Tyson would win easily — it was just a question of when he would put Biggs away.

"I learned I had to come into a fight mentally tough," Biggs said

later. "I just let him dictate the fight after the second round."

Said Tyson: "I don't believe there's a man on the planet who can beat me."

In the first round, Biggs used his height and reach to good advantage. He kept Tyson at bay with his jab while circling back to the left away from Tyson's powerful left hand. Biggs asserted himself with three straight jabs.

In the final minute of the round, Tyson caught up to Biggs with his vaulted left, landing a hook that right hand. Tyson landed a right hand, and, at the end of the round, Biggs was bleeding from the mouth.

Tyson continued to press Biggs in round two. Biggs was not running as much, and Tyson scored with a jab and a hard hook. Driving in, Tyson scored with a right. Tyson rocked Biggs with two hooks to the head.

Tyson peppered Biggs with jabs to open round three, then connected with a crumpling hook. Biggs drew a warning for a low blow. Tyson landed a right and cut Biggs above his left eye. Tyson jolted Biggs with another left, then hammered two more hooks and a tremendous left into his bloodied face.

At round's end, Biggs shook his

head in dismay as he returned to his corner, bleeding heavily around the left eye.

At the start of the fourth, Biggs jabbed feebly and Tyson continued to move in, scoring with a hook. With Biggs close to the ropes, Tyson hit him again with a left, then scored a stiff right cross to reopen Biggs' cut.

Early in the fifth, Biggs landed a right and a left to the head, but Tyson kept moving in. Tyson hammered Biggs with a right and the referee tried to break them apart as the round came to an end.

Tyson pressed relentlessly in the sixth. He scored with a hard right to the head. He drove Biggs back with a left to the head and another to the midsection.

Tyson scored with five consecutive lefts to the head; the wonder of it was what kept Biggs upright.

Tyson greeted Biggs in the seventh by knocking his mouthpiece into the first row. He then knocked Biggs through the ropes with a left to the head and briefly went through the ropes after that. When Biggs got to his feet, Tyson resumed the assault and sent Biggs reeling into his corner with a tremendous left to the head, a hook that left Biggs down and out.



Mike Tyson, looming over challenger Tyrell Biggs after putting him through the ropes in the seventh and final round.

Falcons, in Comeback, Defeat Rams, 24-20

The Associated Press

ATLANTA — Erik Kramer passed for 335 yards and three second-half touchdowns to lift the Atlanta Falcons to a 24-20 victory over the Los Angeles Rams.

It was their last of three replacement games during the strike by regular players of the National Football League.

The Falcons overcame a 17-0 halftime deficit against a Rams team that included 11 of its regulars. The Falcons had only one.

The Rams, playing with no timeouts left, drove from their 20 to the Atlanta 5-yard line where Lynn Dimes intercepted a pass, the fifth turnover for Los Angeles.

The 24-day walkout by the NFL Players Association ended Thursday when players returned, only to be told they were too late to play this week.

Regulars throughout the league are scheduled to return to practice and play in next week's games.

Steelers 21, Colts 7: In Pittsburgh, nonunion quarterback Steve Bono passed for two touchdowns,

Chuck Sanders ran 10 yards for another and the defense contributed five turnovers to lead the Steelers past Indianapolis. Bono's second touchdown pass, a 20-yarder to Merril Hoge, broke a 7-6 tie 4:59 into the fourth quarter.

Browns 24, Bengals 0: In Cincinnati, Gary Davidson threw four touchdown passes against an inexperienced Bengal replacement team as veteran-laden Cleveland overwhelmed the Cincinnati defense. Danielson, at 36 the oldest Cleveland regular, led a contingent of eight Browns who crossed picket lines Wednesday to play in the season's first meeting of the AFC Central Division rivalry.

It was the first shutout and most lopsided victory in the bitter 18-year history of the intrasite rivalry.

Seahawks 37, Lions 14: In Pontiac, Michigan, all-pro wide receiver Steve Largent, who crossed picket lines last week, caught 15 passes for 26 yards and three touchdowns as Seattle pounded Detroit. Quarterback Jeff Kemp, who also returned last week, threw four TD passes against a Detroit secondary of replacement players. Largent's number of catches and yardage were both club records, breaking marks he previously held or shared.

Until Sunday, Kemp, a backup to regular quarterback Dave Krieg, hadn't thrown a single pass this season.

Patriots 21, Oilers 7: In Houston, Doug Flutie engineered scoring drives on New England's first two possessions, and Raymond

Clayborn returned a field goal blocked by Andre Tippett 71 yards for another score to lead the Patriots to victory over the Oilers. Flutie, acquired last week from the Chicago Bears, threw a 27-yard touchdown pass to Larry Ianne while Michael LeBlanc added a 3-yard run.

Linebacker Tippett blocked a Tony Zendejas field goal attempt late in the first half that Clayborn scooped up and returned 71 yards for a touchdown.

New England improved to 3-2 while the Oilers, whose strike replacement team won its first two games, dropped to 3-2.

Saints 19, Bears 17: In Chicago, Florian Kemp's fourth field goal of the game, a 21-yarder with 4:30 to play, boosted New Orleans to victory over the Bears, the last undefeated team in the NFL. Kemp also connected on kicks of 48, 31 and 42 yards, and John Fourcade threw a 14-yard touchdown pass to Eric Metcalfe.

The outcome dropped the Bears to 4-1, while New Orleans went to 3-2. No Bear regulars played.

Packers 16, Eagles 10: In Green Bay, Wisconsin, James Hargrove ran five yards for a touchdown with 9:56 left in overtime to push the Packers past Philadelphia in their last strike replacement game. Hargrove's run capped a 10-play, 70-yard drive on Green Bay's first and only possession of overtime, one that featured passes of 12 and 27 yards from quarterback Lee Rister to Lee Morris.

Green Bay has now played three overtime games this season, winning one, losing one and tying one. The Packers are 2-2 overall, 2-1 in the three weeks of nonunion football.

Bucs 20, Vikings 10: In Tampa, Florida, Kevin Walker returned an interception 30 yards for a touchdown and Arthur Wells recovered a Minnesota fumble in the end zone, leading the Buccaneers over the Vikings. The smallest crowd in Bucs history — 20,850 — watched as replacement ball ended a two-week run in Tampa Stadium when the Bucs improved their record to 3-2 overall, including 1-2 in strike games.

Only one member of Tampa Bay's regular 45-man roster — center Dan Turk — played Sunday. No Minnesota regulars returned to the Vikings.

One of the few banners hung over the railings by fans read: "Thanks B Teams." The crowd gave the players a standing ovation as they walked off the field when the game ended.

SCOREBOARD

Football

Selected College Results

Table with columns for EAST, SOUTH, and MIDWEST, listing various college football games and scores.

Baseball

World Series Summary

Table showing the World Series schedule, scores, and series status for the Twins and Cardinals.

Transition

Table listing various sports events and transitions, including football, basketball, and other games.

European Soccer

Table listing European soccer matches, including Championship Qualifiers and various national league games.

Oklahoma and Nebraska Stay on Collision Course

By Staff From Dispatches... OKLAHOMA and Nebraska, ranked 1-2 since the start of the season, are locked in a collision course... OKLAHOMA, a nine-touchdown favorite, handled Kansas State 59-10, the Wildcats' 11th consecutive defeat. No. 2 Nebraska, meanwhile, made surprisingly easy work of Oklahoma State, rolling up a 46-43 margin in rushing yards and winning by 35-0.

Tennis

Table listing tennis tournaments and results, including men's and women's events.

Hockey

National Hockey League Standings

Table showing NHL standings for the Wales Conference, Campbell Conference, and Saturday's results.

Gold

Table listing gold medal events and winners at the World Hockey Championship.

CFL Standings

Table showing CFL standings for the Eastern and Western Divisions, including playoff results.

College Football

Table listing college football results and statistics, including national and regional games.



Hunter Thompson, Ex-Gonzo Journalist

By Nikki Finkle

Los Angeles Times Service

WOODY CREEK, Colorado — For more than an hour, Hunter S. Thompson was calmly and cogently presenting his views on national politics between bites of his lunch. Suddenly, he stops in mid-sentence and emits a blood-curdling cry. He has detected a strand of hair on the lip of his drinking glass and cannot continue. Not just a small hair, but a "large, ugly, black-rooted hair" that is spoiling his jumbo tumbler of Chivas on the rocks. Soon, everyone at the Woody Creek Tavern in this Rocky Mountain hamlet — from the manager to the neighborhood barfly — is holding the glass up to the light and examining it with the concentration of government health inspectors. No one can see any foreign matter — except for Thompson, who has worked himself into a starting fever trying to get someone to admit that he's not just hallucinating. Finally, the bartender Mary Harris defuses the crisis. "Why, yes," she says, turning the glass around, "I can see the hair now." Vindicated, Thompson placidly returns to his discourse. For a few fleeting moments, the barroom has gotten a glimpse of the Gonzo journalist of old — that literary lion of lunacy who used to prowl the corridors of power for Rolling Stone magazine with a quart of Wild Turkey in one hand and a bottle of amphetamines in the other; the "Good Doctor" whose fear and loathing of American politics were expressed in hilariously vituperative attacks on national political figures; the founder and chief practitioner of a peculiar brand of "new journalism," which held that the story through a drug- and alcohol-induced frenzy was a lot more interesting than whatever his editors had assigned. Today, however, there is a new and possibly improved version of Hunter S. Thompson — a sedate, almost serene, scribe of serious political prose for a syndicated column. What's different is both the man and his message. He's 50 years old now and he knows that what was charming when he was 30 or wild when he was 40 takes on a pathetic patina with the big Five-O. The outrageous outfits of Hawaiian shirts, baggy shorts and high-top sneakers are mixed these days with mountain-man khaki pants and flannel shirts. And, sometimes, the man who once derided the United States as a nation of 220 million used-car salesmen "with no qualms at all about killing anybody else in the world" sounds suspiciously like a flag-waving, Republican-by-birth patriot. "This is the only nation in the world where your vote is heard. You make a difference," the new Thompson says with apparent sincerity. "You do have a say in things. Democracy is really not a bad idea if you pay attention to it." One reason the change seems so marked is that for the last decade Thompson has been something of a recluse on his 100-acre farm here, content to leave the Gonzo image intact rather than go to the trouble of replacing it publicly. But the new Thompson is more "organized," more "sensitive," more "open to serious intellectual exchange," according to his friends. For confirmation that Gonzo is gone, just glance at the stack of political columns he has been writing for the San Francisco Examiner since 1985. (The column also has been appearing in about two dozen U.S. newspapers since August.) Thompson is devoting nearly all his 1,000 words a week to a discussion of the 1988 presidential candidates and issues instead of comically inflated accounts of his misadventures with drugs, Dobermans and deranged dwarfs. Thompson is rightfully proud that even back in the Gonzo days, mainstream journalists recognized that beneath all that LSD-induced gibberish lay an oft-astute political analyst. Garry Thompson's 1973 book, "Fear and Loathing on the Campaign Trail '72," as the most insightful study of that year's presidential election. Thompson got so hooked on the rush of covering national politics in 1972 — "like a jackrabbit gets addicted to road-running" — that he began betting on the out-



Hunter Thompson in his heyday as a Gonzo journalist.

come of each primary, a practice he continues to this day. "I just found it was a good way to learn it," he says. It may not be entirely an idle boast. In an Examiner column on the 1986 mid-term elections, Thompson correctly picked 15 of 17 Senate races. One reason Thompson has said goodbye to Gonzo journalism — founded when he was sent to write a story about the 1970 Kentucky Derby for Scanlon's magazine and, unable to cope with the deadline pressure, "just started jerking pages out of my notebook and numbering them and sending them to the printer" — is that drugs were always integral to his creative process. Amphetamines helped him get his stream-of-conscious thoughts into the typewriter, he once explained, while all the LSD he had taken in San Francisco's Haight-Ashbury in the mid-1960s helped him to dissolve his inhibitions. Today, the drugs have been cut away back. "Oh yeah, I had to," he laments. "There's not enough people to have any fun with. What the hell, I'm by myself. The last dope fiend. It's hard to find the right people to party with." A self-described "hillbilly" from Kentucky, the son of an in-

before the U.S. pullout and then couldn't write anything about it save for rambling cables about his expenses and some lackluster pages from Laos. After more or less cutting his ties with Rolling Stone, Thompson devoted himself to writing books, novels and screenplays. His 1971 book, "Fear and Loathing in Las Vegas," is probably his most critically acclaimed, but he also had huge success with "The Great Shark Hunt," a 1979 compilation of his articles. In the 1980s, Thompson surfaced only occasionally. In 1983, he produced a best-selling book, "The Curse of Lono," chronicling in typical Gonzo fashion a Conrad-like dark journey to Hawaii, where Thompson started to believe he was the reincarnation of a god. That same year, he showed up at the U.S. invasion of Grenada (ostensibly to cover it) wearing a pair of pink linen golf pants that made him look like a Palm Beach sycophant who had taken a wrong turn. But if Thompson was gone from the political arena, he was by no means forgotten. Cartoonist Garry Trudeau immortalized him as Raoul Duke in the "Doonesbury" strip. "A lot of people want to grow up to be firemen and president," Thompson once said. "But nobody wants to grow up to be a cartoon character." On a regular basis, baby boomers who had cut their political teeth on Thompson's writing would travel to Woody Creek in search of the Good Doctor deity, a dozen or so "Do Not Disturb" and "No Trespassing" signs in front of his home, not to mention his collection of 50 shotguns. And the Washington Post political writer Haynes Johnson pleaded plaintively in a column about the 1984 presidential election, "Hunter, where are you now that we need you?" In fact, Thompson was hiding out in Woody Creek and in the Florida Keys supposedly getting in the mood to write a new novel — suffering, in a massive case of writer's block. He's over it now, thanks in part to the pressure of penning the weekly column. "It's good to write every week. It gets to be a habit, like a drug," he says contentedly.

A 'Piece of Work' and Fatal Flaws

By William Safire

WASHINGTON — In "Veil," his book about William J. Casey's CIA, Bob Woodward climbs inside the head of Bobby Ray Inman, who had been the deputy chief spook and was apparently a key source for the newsmag. "After a year," writes Woodward, "Inman had come to regard Casey as a 'piece of work,' a term that Casey often applied to the oddballs in their midst."

When the phrase in the author and translator Richard Carew's "It were an infinite piece of work," this meaning of "strained effort" gains a figurative extension of "ado, commotion" in Charles Dickens's novel "Martin Chuzzlewit": "What are you making all this piece of work for?" Along the way, between the early coinage of piece of work to denote an intricate job and its later adoption (apparently throughout U.S. intelligence agencies) as applicable to assets or targets who are "odd-ball, eccentric, weird," the phrase was immortalized by William Shakespeare's Hamlet: "What a piece of work is a man! How noble in reason! how infinite in faculties!... how like an angel in apprehension how like a god!" He was not suggesting man is some kind of flake. Consider Prince Hamlet himself: a man tortured by doubt, driven by dreams, trusting nobody, burdened by his bloody secrets, half-crazily pretending to be demented. There was a piece of work.

"I REGRET more deeply than I can express," stated the presidential candidate Alexander M. Haig Jr. "that the current proposed arms-control agreement is seriously flawed." I give Haig credit for that: he avoided the most cringing cliché of treaty-making, that ringing triumph of aliteration, fatally flawed. "Fatally flawed" was Ronald Reagan's characterization of the SALT II treaty negotiated by the Carter administration, because he said it would not bring about reductions in large Soviet land-based missiles. The phrase worked well for him; in 1987, he told an interviewer that the plan put forward by Costa Rica's President Oscar Arias Sánchez in Guatemala was fatally flawed. The New York Times, in rebuttal, editorialized: "The Guatemala plan, whatever its weaknesses, is not fatally flawed." The editorialist knew that, in the game of treaty flaws, to be seriously flawed is to mean "Look, this isn't so hot, but with a few big bites, I could live with it," but to be fatally flawed is to mean "This is one I want to run against." In that context, the phrase seems to convey admiration, but a half-century later, a new meaning of "hard task, difficult business" was

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